



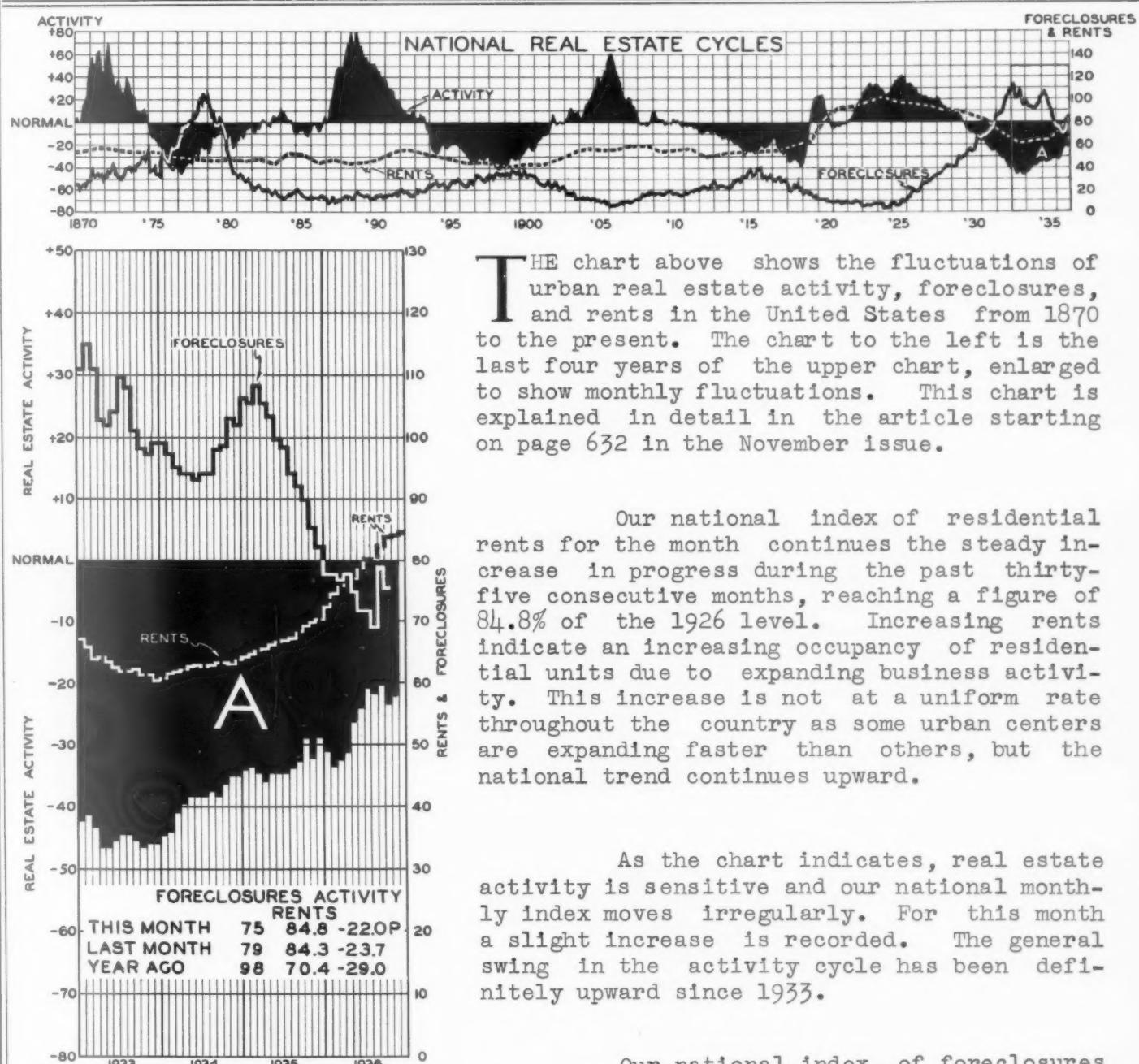
The Real Estate ANALYST

DECEMBER
1936

Roy Wenzlick
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

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Real Estate Economists, Appraisers and Counselors



shows a four point drop. Due to the differing times of completion of foreclosures among the several states from which our data are collected, the foreclosures of HOLC loans cause marked monthly variations in this index. Rising rents and occupancy are gradually increasing earning power, resulting in fewer foreclosures and increased activity.

Our national index of foreclosures

As the chart indicates, real estate activity is sensitive and our national monthly index moves irregularly. For this month a slight increase is recorded. The general swing in the activity cycle has been definitely upward since 1933.

INTEREST RATES IN A TYPICAL METROPOLITAN CITY

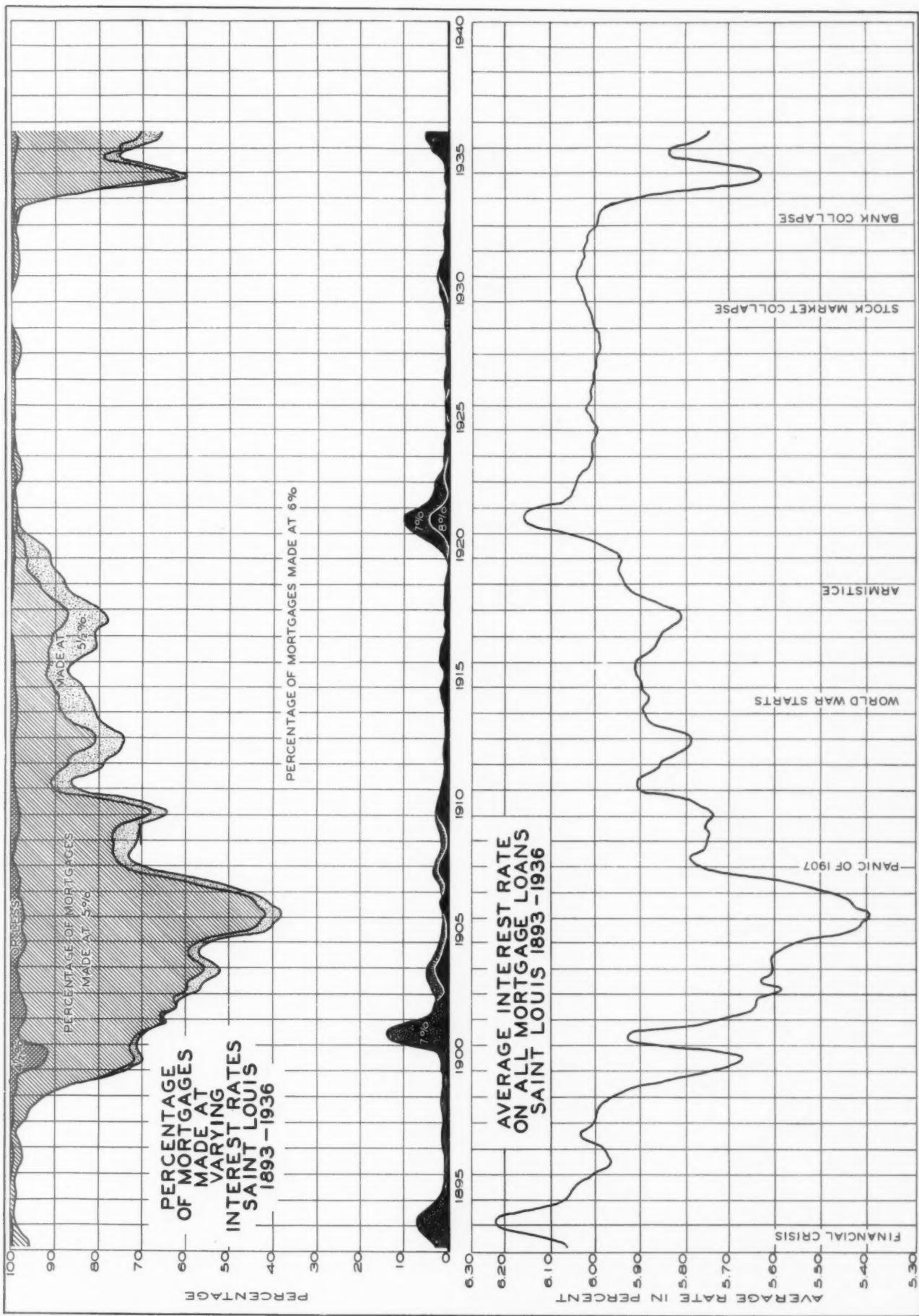
In the October, 1936, issue of The Real Estate Analyst we showed a charting of interest rates on real estate mortgages for Manhattan Island from 1879 to the present. On the page opposite we show a similar charting of mortgage interest rates in St. Louis from 1893 to the present.

In both of these studies the interest rates carried on all real estate mortgages were examined and charted quarterly after being adjusted for seasonal fluctuations. All mortgage extensions, consolidations, and agreements were eliminated, but purchase money mortgages were retained in the final tabulations. The inclusion of purchase money mortgages in Manhattan increased the percentages of mortgages made at lower rates of interest to a greater extent than it did in St. Louis, as a smaller percentage of real estate was taken over during the depression in St. Louis by institutional lenders. There is a tendency on the part of institutional lenders in New York City, and probably in many other places, to sell the real estate they have acquired for a small down payment and a large purchase money mortgage at a very low rate of interest.

On the page opposite, the lower chart shows the fluctuation in the average interest rate on all mortgage loans made in St. Louis. The upper chart, in place of showing an average rate on all mortgages, shows the proportion of mortgages made at each different rate of interest. For instance, from this chart it can be seen that at the present time about five per cent of all of the mortgages being made are being made at 7%. Sixty-one per cent are being made at 6%. About four per cent are being made at $5\frac{1}{2}\%$. Approximately twenty-nine per cent are being made at 5%, and about one per cent are being made at $4\frac{1}{2}\%$ or less. In Manhattan at the present time only a quarter of the mortgages are being made at 6%, and a third are being made at 4% or less. The legal rate in Missouri is 8%, and the legal rate in New York is 6%.

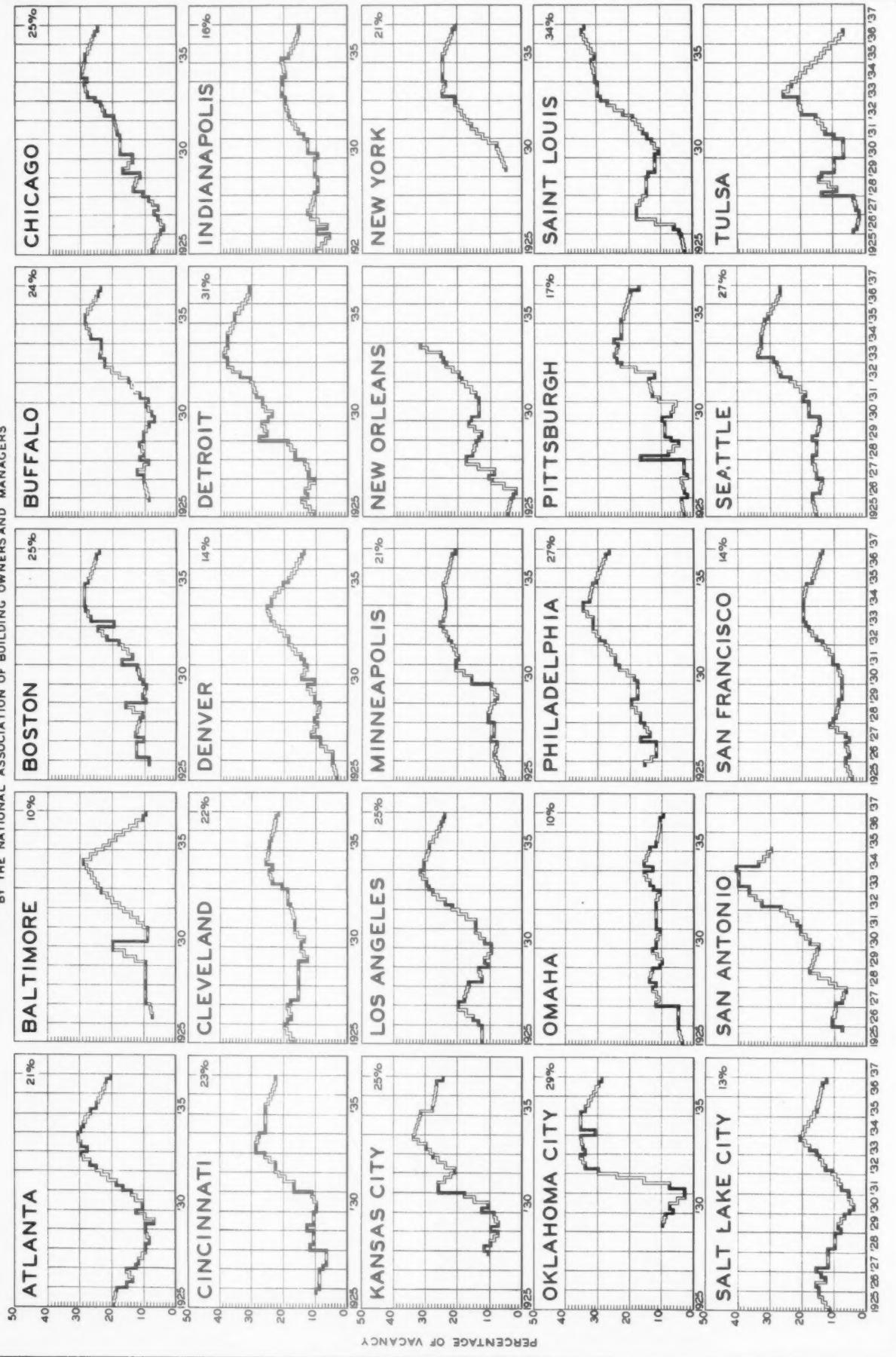
Interest rates in St. Louis prior to the financial crisis of 1893 and the ensuing long depression were extremely high, followed by a pronounced downward trend for twelve years. During this entire period there was very little building taking place. However, in the early nineteen hundreds a tremendous building boom started, heightened in St. Louis no doubt by the World's Fair which opened in 1904. This resulted in a rapid rise in interest rates with few interruptions for five years. From 1910 until 1920 there was no pronounced trend, although interest rates were fairly high during the entire period. From 1920, however, until the time of the bank collapse St. Louis experienced very high rates.

It is quite interesting to note that in 1905 and 1906 interest rates in St. Louis were far lower than they are at the present time. This is contrary to the popular belief, and was probably one of the contributing factors to the tremendous building boom which occurred in St. Louis in the early nineteen hundreds. The increasing demand for money brought about by the building boom caused the rates to increase steeply, just as we believe the interest rates on real estate mortgages will increase again as soon as a large volume of building gets under way. We realize, of course, that government pressure will be exerted, and probably effectively exerted, during the next year and a half to keep interest rates low; but if deficit financing can be brought to an end by that time, we believe that interest rates will move up quite rapidly.



OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY REAL ESTATE ANALYSTS, INC., SAINT LOUIS, FROM DATA FURNISHED
BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS AND MANAGERS



OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

The chart on the page opposite shows the fluctuations in office building vacancy as revealed by the surveys made under the auspices of the National Association of Building Owners and Managers.

These national surveys are made three times a year, but comparatively few cities make them that often. On the charts opposite we show actual survey results in black. Probable trends between surveys are shown by the hollow line.

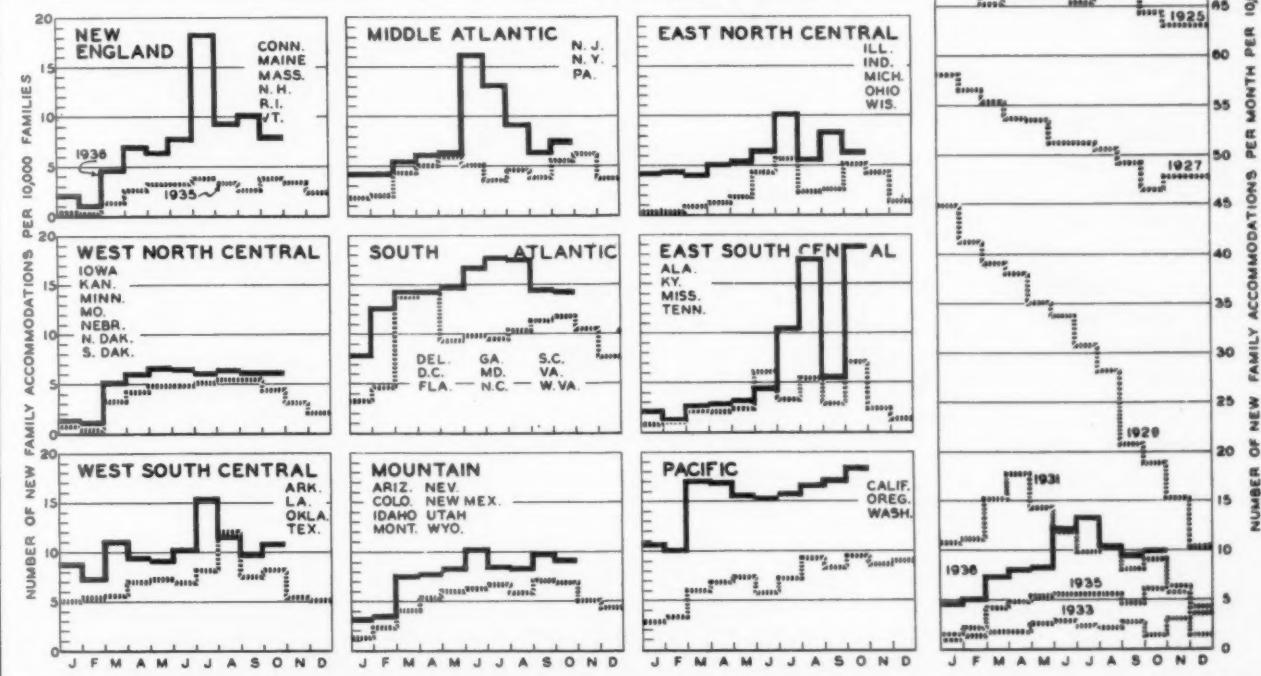
The present percentage of vacancy is shown in figures in the upper right hand corner of each chart. If no figure appears in this space, it indicates that the last survey did not include that city.

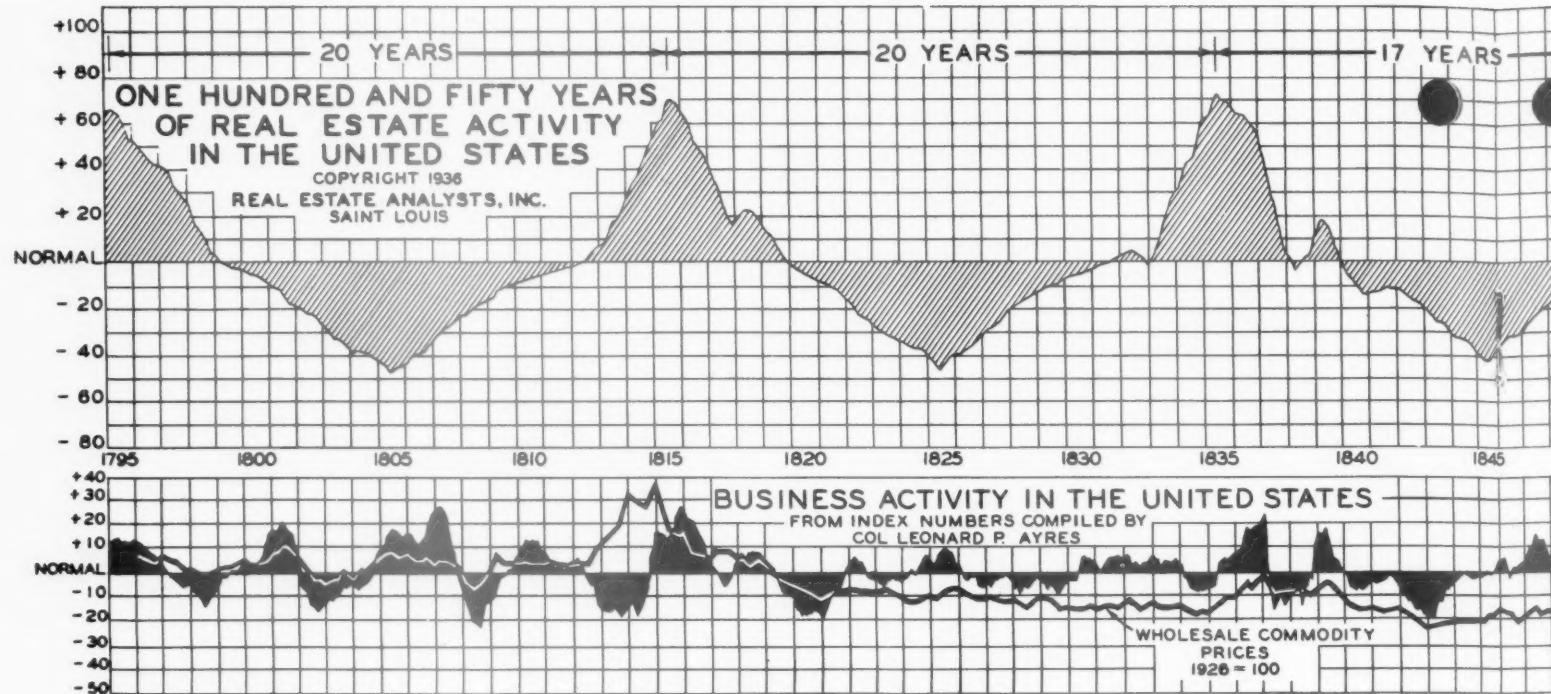
The national averages since January 1, 1934, the high point in vacancy, are as follows:

	<u>January 1</u>	<u>May 1</u>	<u>October 1</u>
1934	27.6	27.4	26.9
1935	26.4	26.0	24.5
1936	24.1	22.7	21.4

RESIDENTIAL BUILDING BY REGIONS

THE charts below show the volume of residential building, expressed as the number of new family accommodations provided per month for each 10,000 families, in various regions by months for 1935 and ten months of 1936. The tall chart at the right is drawn to the same scale as the smaller charts and compares the present volume of building in the United States with the volume for a number of past years.



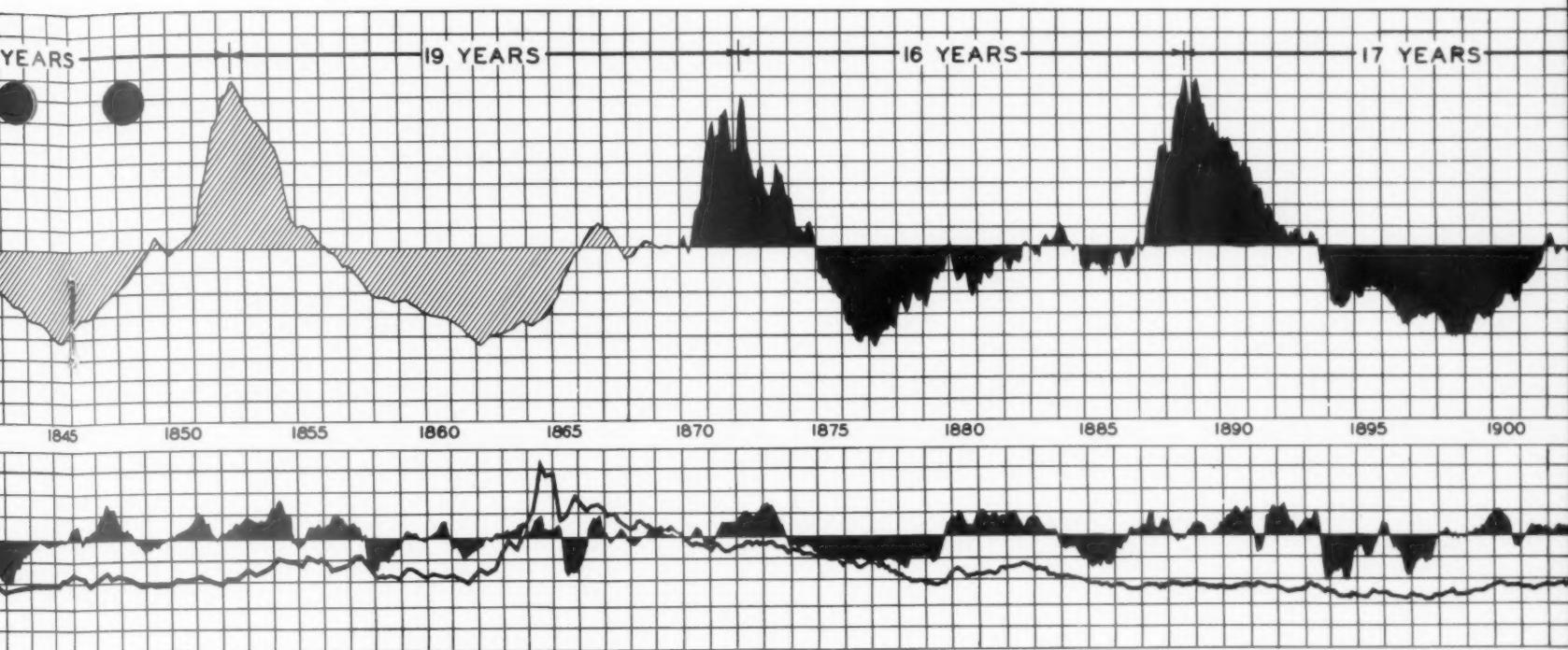


ONE HUNDRED AND FIFTY YEARS OF REAL ESTATE ACTIVITY IN THE UNITED STATES

THE chart shown above represents an effort to trace real estate booms and depressions during the entire history of the United States in contrast with general business activity over the same period as computed by Colonel Leonard P. Ayres of the Cleveland Trust Company. Both charts are drawn to the same scale.

It will be noticed that the chart showing real estate activity is divided into three sections. From 1795 to 1870 real estate booms and depressions are shown by the line-shaded areas. From 1870 to the present the real estate booms and depressions are shown in black. From the present to 1945 line-shaded areas are shown. The black areas on this chart represent fluctuations in real estate activity as they have been actually measured in principal cities by Real Estate Analysts, Inc. This portion of the chart first appeared in The Real Estate Analyst for November, 1936. It is explained in detail in that report.

The period from 1795 to 1870 was drawn in the following fashion. From old newspapers, magazines, and books we have found frequent references to real estate booms and depressions in the past. We find, for instance, that in 1795 frequent references were made to land speculation as an integral part of the boom which was then under way. This boom seems to have collapsed three or four years later, and until 1815 we find no further references to real estate boom conditions. However, in that year again we find references to heavy speculation in land. This period seems to have lasted for a longer time in the South than it did in the North, but by 1819 real estate values were shrinking quite rapidly. We find no further general allusions to boom conditions in real estate until 1835, when another period of active land speculation began. The panic of 1837 caused speculation to drop very rapidly, with a slight revival in 1839. The next

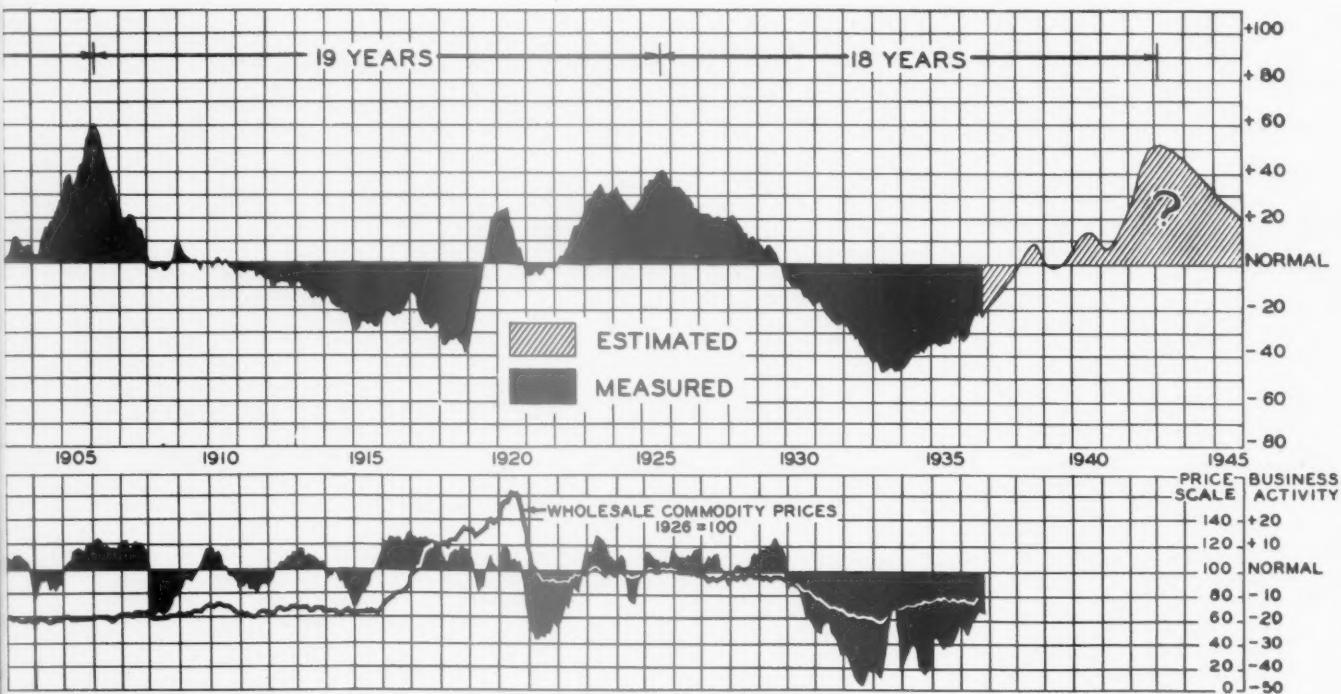


big real estate boom in the United States was in 1852, culminating in the panic of 1857. We find no further references until the early seventies, as shown on the black portion of the chart.

Considerable apologies are offered for the early part of this chart. Our outlining of these booms and depressions is purely an estimate based only on the general statements of conditions which we have read. They are not measured in any way, nor do we even know that all of them were national in scope, but we are positive that real estate booms occurred at substantially the periods shown. We can find no authentic records of any other booms during this interval.

Real Estate Analysts, Inc., hopes to reconstruct the real estate past on a measured basis over the entire period of this chart, but it will be many years before our work on this can be completed, as we must first painstakingly measure real estate activity month by month in the principal cities. We can offer no assurance that, when this work is completed, the areas will even closely resemble the shapes which we have now estimated from the only data available. We are positive, however, that the peaks are approximately located, and this is the primary thing of interest to us at the present time. Our frequently stated conclusions on both the extreme length of the real estate cycle and its regularity are confirmed by the intervals between booms during the entire span of this study. The period from peak to peak has never exceeded twenty years and has never been less than sixteen years. The average period over the entire stretch from 1795 to the top of the last boom has been 18.3 years.

All of the measurable factors we are accumulating and studying lead us to believe that the next boom will arrive pretty much on schedule. In the book by Roy Wenzlick of our organization, called The Coming Boom in Real Estate, published this last May, on pages 9 and 10 he said that



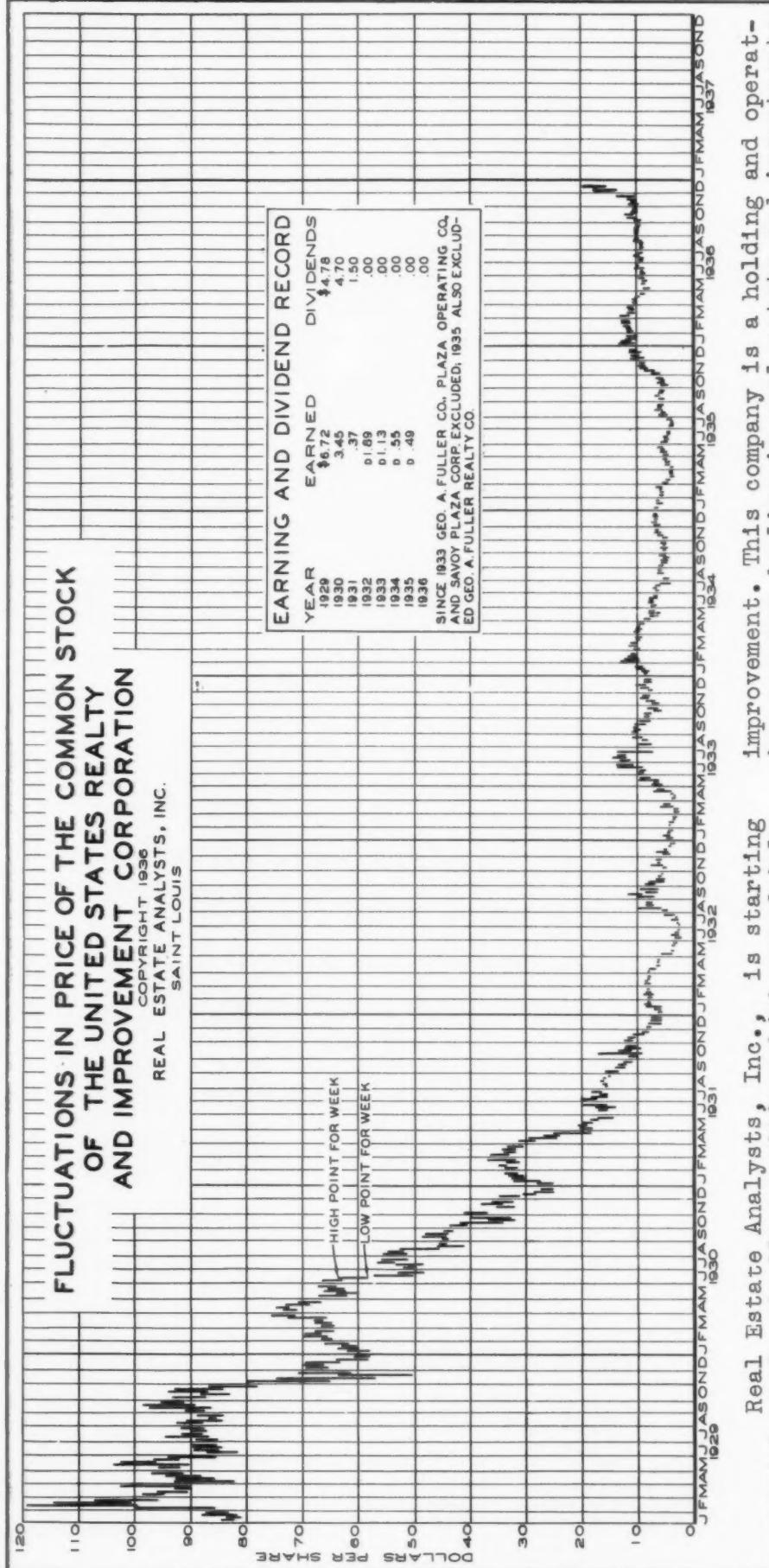
he did not expect the boom to reach its height until the early forties, probably not until 1943 or 1944. This still looks reasonable, and we have indicated on our chart in a rough fashion how we think this boom might develop. We are positive, however, of just one thing in regard to this future portion of the chart--the actual charting will be different from the charting we have suggested.

It is hard to tell at the present time whether or not we have been too conservative in placing the real boom as late as we showed here. It is conceivable that it might occur several years earlier. We would not be surprised, however, if the recovery of real estate did not show a somewhat similar reaction to that preceding the real estate boom of the nineties or the real estate boom starting in 1904. It will be noticed in both these cases that real estate activity hovered around the normal line before it shot into the irrational boom. A somewhat similar thing happened in 1919 and 1920 following the Armistice, before we went into the tremendous period from 1922 to 1929.

The placing of the boom as late as we have it here should not be interpreted as indicating that real estate will not show considerable recovery during 1937. It will be noticed that by the end of 1937 we have shown real estate activity back at the level of 1929. Possibly it might be well to repeat at this place our definition of a real estate boom. A real estate boom is a period in which the general public is willing to pay more for real estate than its real economic value. In that period the average man will be too optimistic about the future of real estate values just as he is too pessimistic today. It would be better for real estate if this boom never arrived, if real estate activity could proceed indefinitely along the normal line without the frantic swings from feverish activity to periods of total inaction.







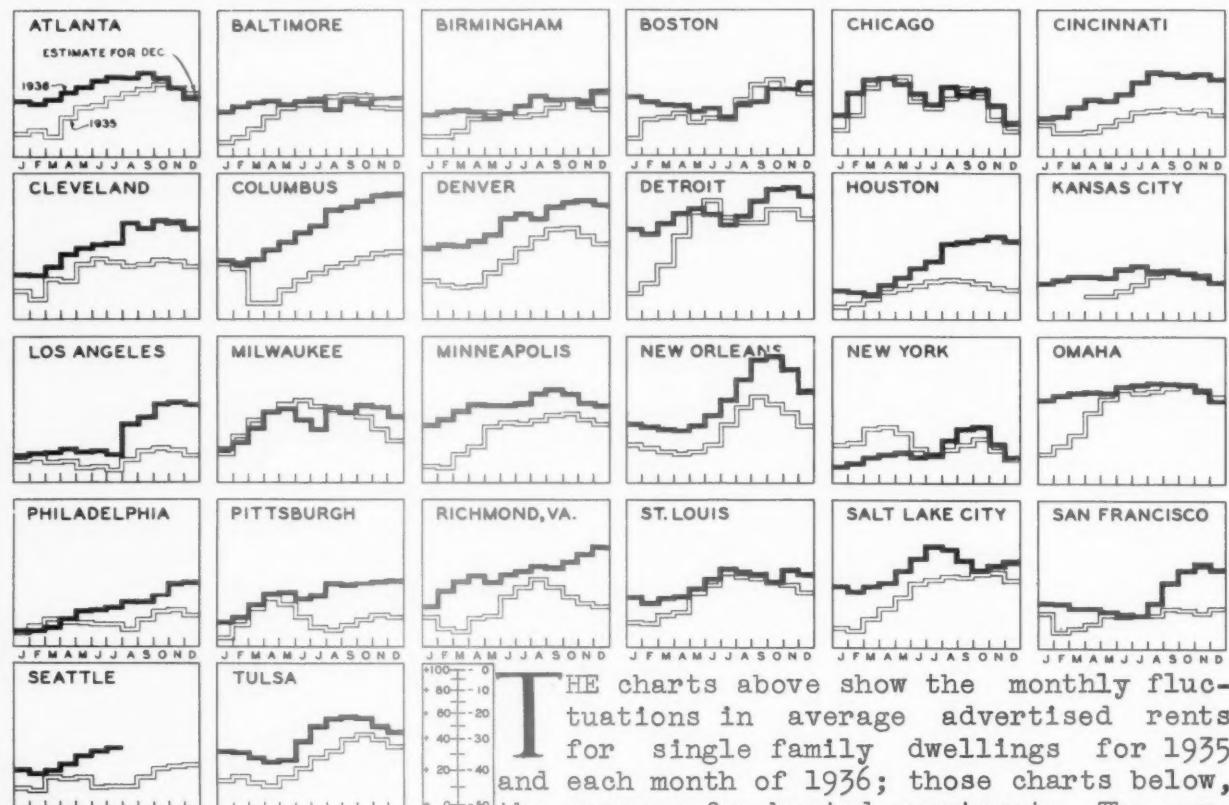
improvement. This company is a holding and operating company dealing in real estate and investments either directly or through subsidiaries it owns a number of properties including the Fuller, Trinity, U. S. Realty, and Whitehall buildings, and the Plaza, Savoy Plaza, Plaza Annex, and Breslin hotels in New York City; the Lawyers Building in Boston; limestone quarries in Alabama; and various pieces of unimproved real estate. The company also has a substantial interest in the National Hotel of Cuba. It also controls the Geo. A. Fuller Co. in the construction field.

Real Estate Analysts, Inc., is starting a special study of all securities which are fairly liquid and where the real value consists primarily in real estate equities. In the studies we will make during the next few months will be included many real estate bonds where reorganizations have transferred the equities to the bondholders.

The chart above shows the fluctuations in price of the common stock of the United States Realty and Improvement Corporation from 1928 to date. It will be noticed that after a period of practically five years this stock is showing some

AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935-1936

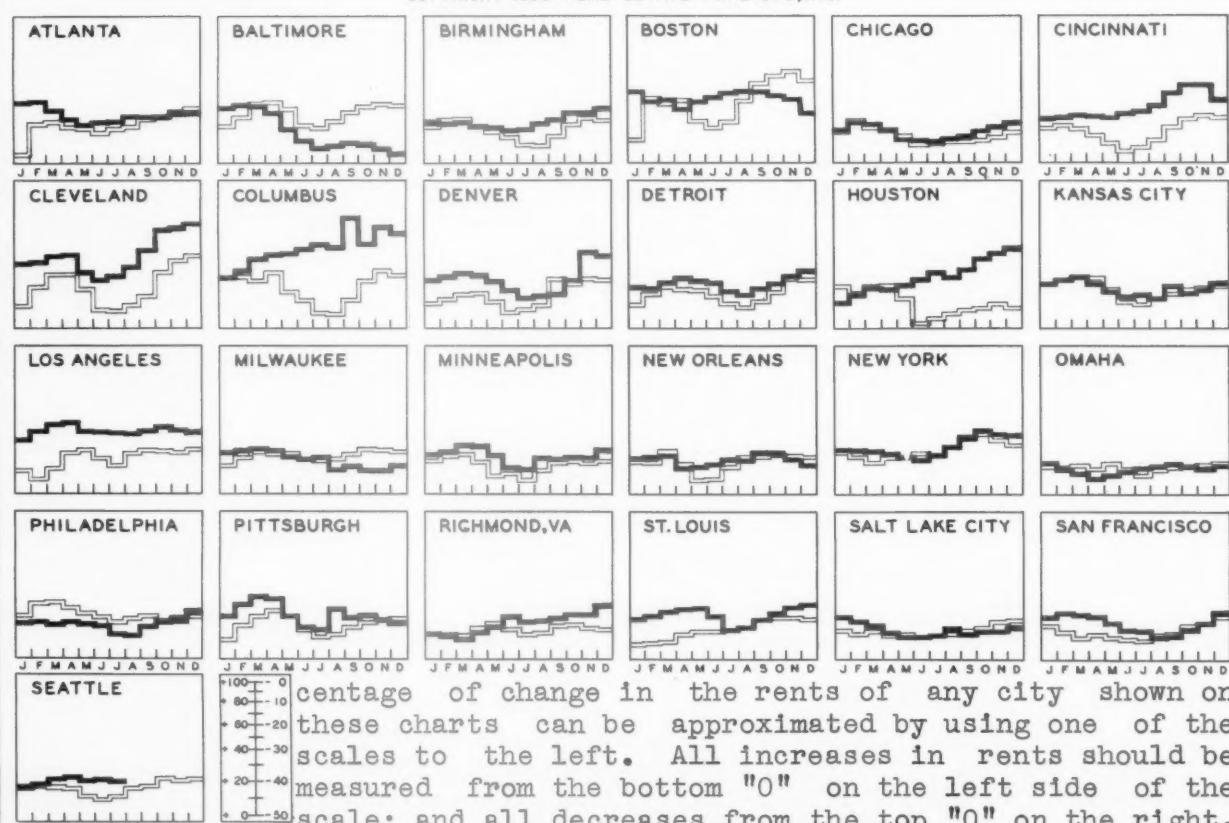
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THE charts above show the monthly fluctuations in average advertised rents for single family dwellings for 1935 and each month of 1936; those charts below, the average for heated apartments. The per-

AVERAGE ADVERTISED APARTMENT RENTS 1935-1936

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percentage of change in the rents of any city shown on these charts can be approximated by using one of the scales to the left. All increases in rents should be measured from the bottom "0" on the left side of the scale; and all decreases, from the top "0" on the right.

ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rents of residential units of various types each month in the twenty-six metropolitan cities listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city.

The average of all places advertised for rent will vary considerably from month to

month due to the inclusion some months of a larger number of either high or low priced units. That the trend is definitely up in most cities is indicated by the figures below and the charts opposite.

The December figures are preliminary, based on the advertisements appearing during the first two weeks of the month. In a majority of the cities these preliminary figures are above the final figures for December, 1935.

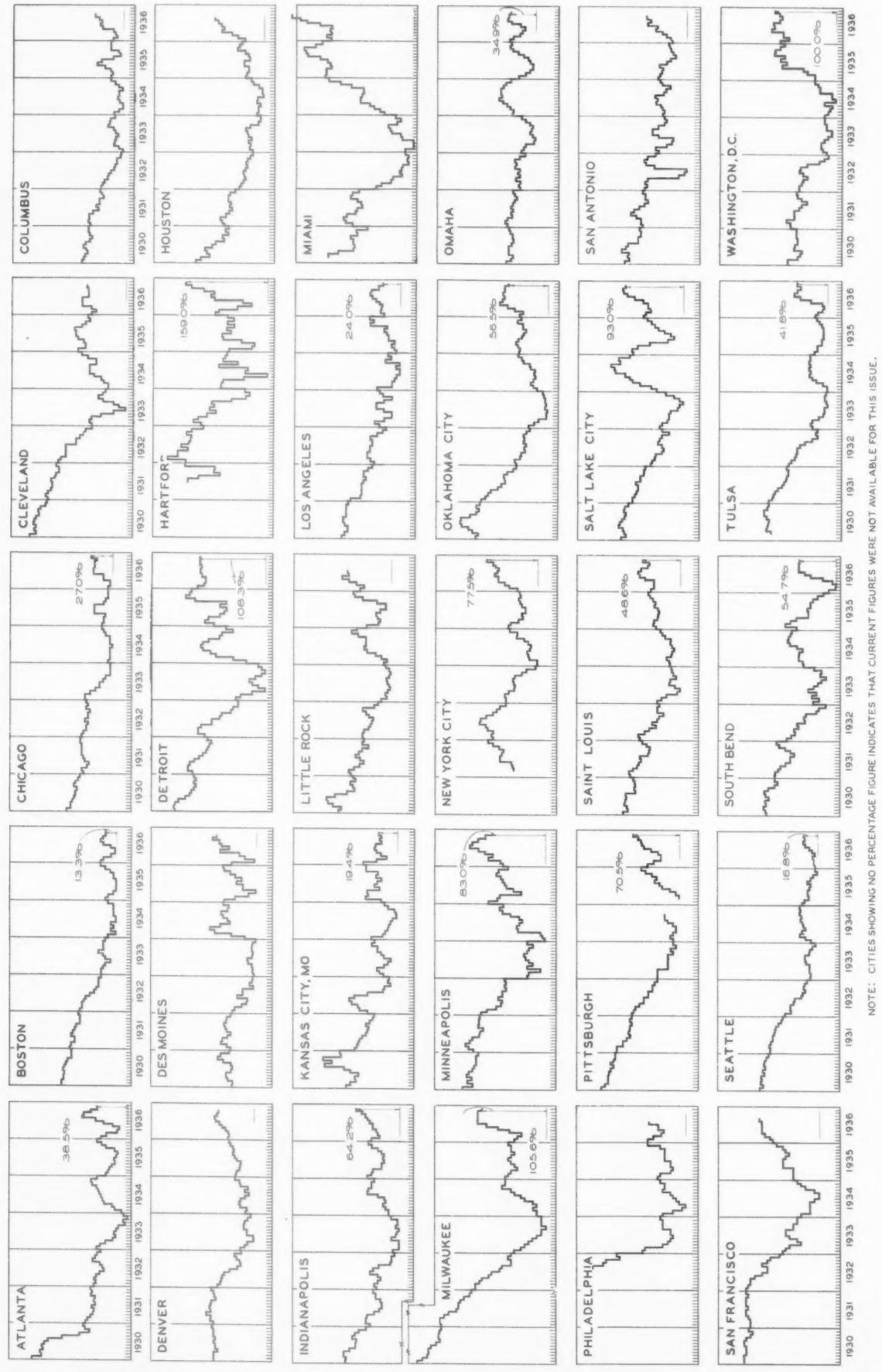
	1935													1936													
	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	*Dec.		Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	*Dec.
Atlanta	\$6.93	\$6.68	\$6.59	\$6.71	\$6.97	\$7.15	\$7.39	\$7.51	\$7.50	\$7.65	\$7.43	\$7.10	\$6.75	Cincinnati	8.02	7.92	7.96	8.25	8.68	8.65	8.93	9.48	9.92	9.90	9.81	9.83	9.57
Baltimore	5.75	5.69	5.82	5.95	5.97	5.89	5.99	6.02	5.71	5.94	5.93	6.05	6.05	Cleveland	7.84	7.59	7.56	7.88	8.40	8.67	8.83	8.86	9.84	9.55	9.95	9.73	9.44
Birmingham	5.08	4.96	5.03	5.06	5.03	4.87	5.00	5.18	5.42	5.33	5.30	5.29	5.52	Columbus	5.61	5.42	5.36	5.44	5.71	5.95	6.23	6.42	6.98	7.03	7.35	7.52	7.54
Boston	7.55	7.47	7.27	7.17	7.15	6.93	7.04	6.72	7.16	7.24	7.71	7.74	7.81	Denver	5.89	5.77	5.84	5.82	5.96	6.17	6.80	6.65	7.05	7.18	7.26	7.08	7.26
Chicago	7.98	8.63	9.66	10.32	10.37	10.11	9.63	9.12	9.96	9.60	9.80	9.10	8.35	Detroit	8.33	7.93	7.74	8.12	8.56	8.79	8.51	8.09	8.43	9.11	9.66	9.69	9.34
Houston	7.01	7.00	6.92	6.84	7.20	7.47	7.81	8.09	8.86	8.90	9.05	9.15	8.98	Kansas City	4.95	4.84	4.92	5.00	4.99	5.20	5.28	5.15	5.17	5.05	4.94	4.84	4.84
Los Angeles	8.64	8.68	8.72	8.74	8.95	8.80	8.81	8.69	10.15	10.36	10.97	11.05	10.89	Milwaukee	7.41	7.17	7.35	7.90	8.59	8.71	8.26	7.88	8.80	8.55	8.81	8.70	8.39
Minneapolis	6.02	6.04	6.22	6.49	6.69	6.67	6.67	6.71	7.05	7.20	7.05	6.71	6.63	New Orleans	5.43	5.41	5.36	5.28	5.25	5.38	5.66	6.11	6.75	7.41	7.53	7.05	6.29
New York	11.36	10.93	11.11	11.40	11.69	11.71	11.40	11.61	12.50	13.23	13.42	12.12	11.44	Omaha	6.22	6.14	6.27	6.34	6.38	6.36	6.57	6.62	6.69	6.66	6.65	6.32	6.08
Philadelphia	5.78	5.46	5.46	5.52	5.79	6.01	6.03	6.11	6.30	6.30	6.44	6.88	6.91	Pittsburgh	6.98	6.81	6.98	7.41	7.84	7.89	7.67	7.78	8.25	8.20	8.20	8.25	8.28
Richmond	6.16	6.17	6.65	6.98	7.18	6.96	7.21	7.32	7.52	7.46	7.69	7.98	8.29	Saint Louis	6.59	6.45	6.27	6.43	6.48	6.72	7.07	7.42	7.31	7.20	6.86	7.29	7.16
Salt Lake City	5.63	5.49	5.33	5.49	5.58	5.91	6.30	6.70	6.60	6.26	5.97	6.11	6.25	San Francisco	7.35	7.55	7.54	7.36	7.36	7.24	7.16	7.11	7.55	8.34	8.86	9.15	8.88
Seattle	5.65	5.55	5.45	5.51	5.70	5.96	6.09	6.19	x	x	x	x	x	Tulsa	6.92	6.77	6.74	6.56	6.42	6.48	7.11	7.67	7.97	8.00	7.96	7.64	7.40
Atlanta	10.67	10.89	10.91	10.42	10.00	9.71	9.82	9.89	10.13	10.10	10.33	10.14	10.35	Baltimore	12.00	11.93	12.05	12.02	11.65	10.74	10.09	9.79	9.88	9.94	9.75	9.63	9.46
Birmingham	8.64	8.61	8.54	8.57	8.45	8.39	8.26	8.27	8.52	8.68	8.98	9.01	9.22	Boston	12.79	12.17	11.55	11.68	11.13	11.59	11.80	12.05	12.20	12.18	11.97	11.08	10.31
Chicago	11.66	11.85	12.26	12.14	11.86	11.25	11.23	11.14	11.32	11.47	11.66	12.08	12.15	Cincinnati	11.28	11.26	11.36	11.47	11.45	11.40	11.57	11.71	12.01	12.81	13.30	13.32	12.48
Cleveland	10.80	10.40	10.49	10.77	10.82	9.97	9.60	9.79	10.25	11.10	12.25	12.46	12.52	Columbus	9.11	9.07	9.38	9.94	10.16	10.20	10.41	10.62	10.50	12.13	10.74	11.59	11.27
Denver	10.90	10.87	11.02	11.24	11.16	10.76	10.31	9.94	10.02	10.92	10.86	12.59	12.36	Detroit	10.86	10.49	10.40	10.70	10.93	10.79	10.65	10.27	10.05	10.32	10.68	11.08	11.37
Houston	7.78	8.00	8.29	8.59	8.53	8.70	8.95	9.28	9.03	9.31	9.87	10.12	10.43	Kansas City	6.77	6.88	7.00	7.11	6.86	6.61	6.48	6.51	6.40	6.79	6.58	6.76	6.99
Los Angeles	11.31	11.87	12.31	12.79	12.82	12.33	12.32	12.28	12.21	12.36	12.51	12.42	12.38	Milwaukee	10.00	9.88	9.95	10.02	9.95	9.64	9.51	9.60	9.02	9.15	8.97	8.96	9.11
Minneapolis	8.82	9.18	9.29	9.59	9.57	9.13	8.58	8.50	9.00	8.95	9.04	8.95	8.95	New Orleans	8.45	8.41	8.49	8.53	8.01	8.04	8.17	8.36	8.32	8.67	8.45	8.34	8.05
New York	17.83	17.58	17.56	17.40	17.20	16.97	16.74	17.02	17.88	18.54	19.30	18.95	18.89	Omaha	10.47	10.54	10.21	10.00	9.73	9.90	10.11	10.28	10.32	10.37	10.30	10.20	10.38
Philadelphia	13.16	13.20	13.23	13.08	13.23	13.08	12.94	12.45	12.37	12.98	13.30	13.62	13.98	Pittsburgh	9.77	9.91	10.51	10.96	10.82	9.93	9.42	9.29	10.28	9.80	9.95	9.65	9.58
Richmond	9.87	9.70	9.69	9.41	9.75	10.01	10.53	10.29	10.31	10.41	10.52	10.60	11.05	Saint Louis	9.74	9.79	9.94	10.17	10.37	10.38	9.95	9.26	9.34	9.69	10.04	10.33	10.44
Salt Lake City	9.74	9.91	9.70	9.50	9.16	8.98	8.98	9.02	9.37	9.10	9.21	9.16	9.31	San Francisco	11.82	11.83	12.01	11.93	11.83	11.41	11.02	11.01	10.67	10.73	10.96	11.42	12.08
Seattle	10.52	10.23	10.37	10.53	10.60	10.50	10.56	10.46	x	x	x	x	x														

*Preliminary

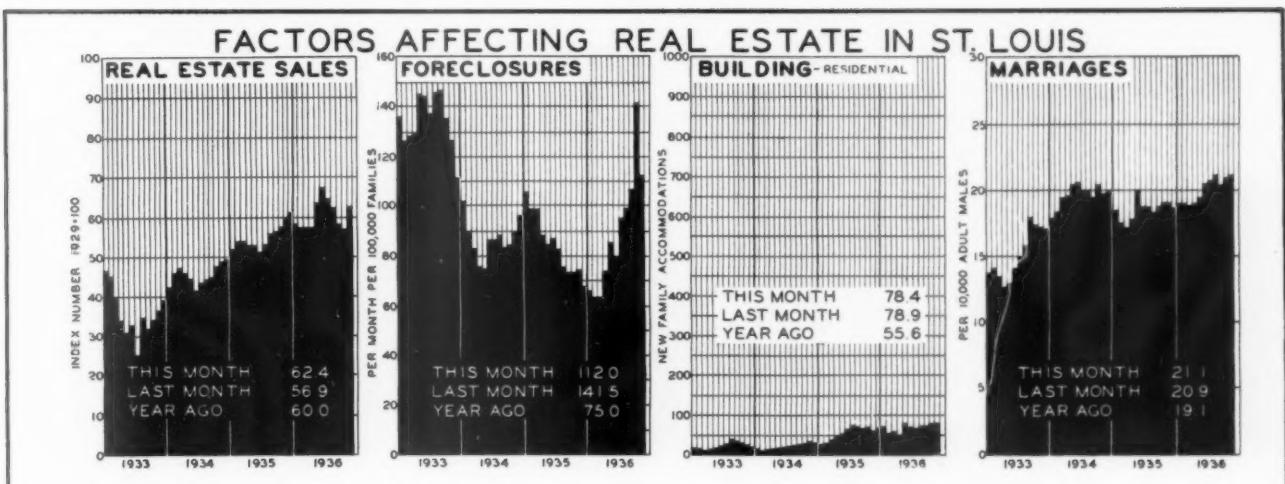
xNewspaper strike

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES
1930-1936

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NOTE: CITIES SHOWING NO PERCENTAGE FIGURE INDICATES THAT CURRENT FIGURES WERE NOT AVAILABLE FOR THIS ISSUE.



REAL Estate Analysts, Inc., has made an intensive study of Greater Saint Louis on the assumption that an exhaustive study over a long period of all factors affecting real estate in one representative community is often of greater value in determining the sequence of events in collapse and recovery than is a general study of the entire country.

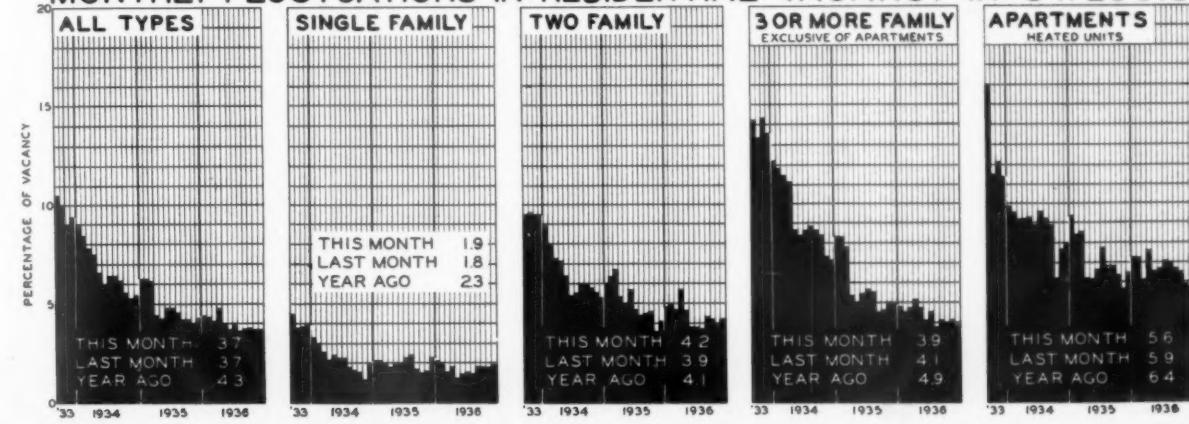
The rapid rise in foreclosures of last month due to HOLC subsided to a marked degree. Real estate sales increased over the last four months; new building, after adjustment for seasonal fluctuation, showed no gain; and marriages increased slightly.

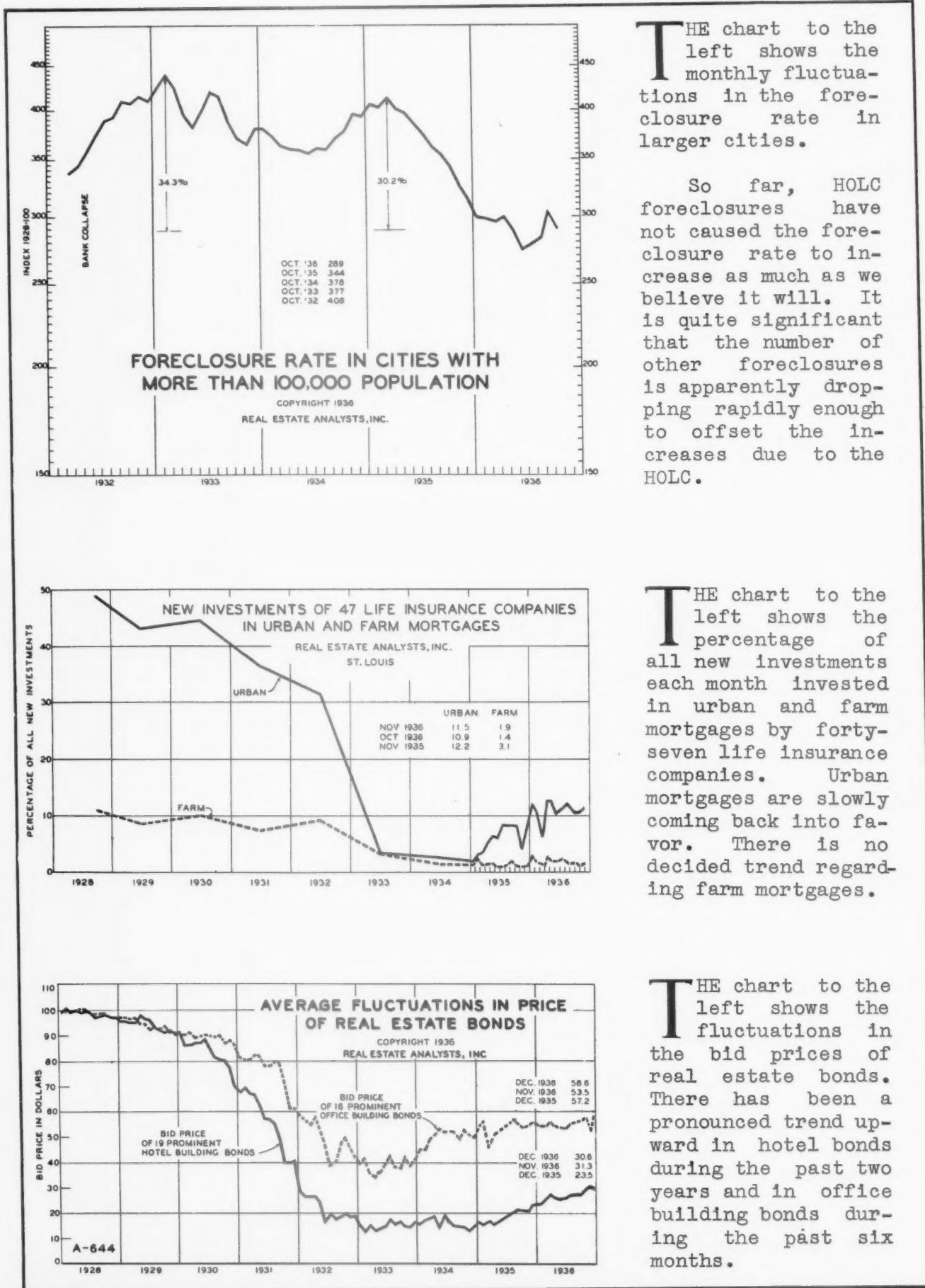
Total residential vacancy in Saint Louis showed no pronounced change during the period from November 6 to December 8; although vacancy in single- and two-family dwellings increased slightly, while vacancy in larger units and apartments dropped.

The number of vacant residential units for November, 1932, and December of the last four years is shown in the following table:

Date	Vacancies	Vacancy %
November, 1932	28,207	12.8
December, 1933	21,350	9.5
December, 1934	12,100	5.4
December, 1935	9,450	4.3
December, 1936	8,200	3.7

MONTHLY FLUCTUATIONS IN RESIDENTIAL VACANCY IN ST. LOUIS





THE chart to the left shows the monthly fluctuations in the foreclosure rate in larger cities.

So far, HOLC foreclosures have not caused the foreclosure rate to increase as much as we believe it will. It is quite significant that the number of other foreclosures is apparently dropping rapidly enough to offset the increases due to the HOLC.

THE chart to the left shows the percentage of all new investments each month invested in urban and farm mortgages by forty-seven life insurance companies. Urban mortgages are slowly coming back into favor. There is no decided trend regarding farm mortgages.

THE chart to the left shows the fluctuations in the bid prices of real estate bonds. There has been a pronounced trend upward in hotel bonds during the past two years and in office building bonds during the past six months.





CONFIDENTIAL BULLETIN

PUBLISHED IN THE INTERESTS OF THE REAL ESTATE INVESTOR BY

REAL ESTATE ANALYSTS, INC.

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



SAINT LOUIS

REAL ESTATE VERSUS STOCKS ON TODAY'S MARKET

THREE are no safe permanent investments. The wise investor is prepared to shift from one investment to another. He invests in that which, because of basic trends or unusual conditions, is obviously undervalued. He sells when his holdings have risen to a point where the selling price is greater than the investment value.

Real estate is now emerging from a greatly undervalued condition. It is gaining heavily in popularity, particularly with those who understand the fundamentals which control its movements. Inevitable inflationary trends, which will seriously affect most investments, are causing serious-minded persons to contrast real estate with good stocks. Obviously, real estate, common stocks, or commodities furnish the best hedge against inflation.

What, then, are the three factors to consider in selecting the best "inflation" investment?

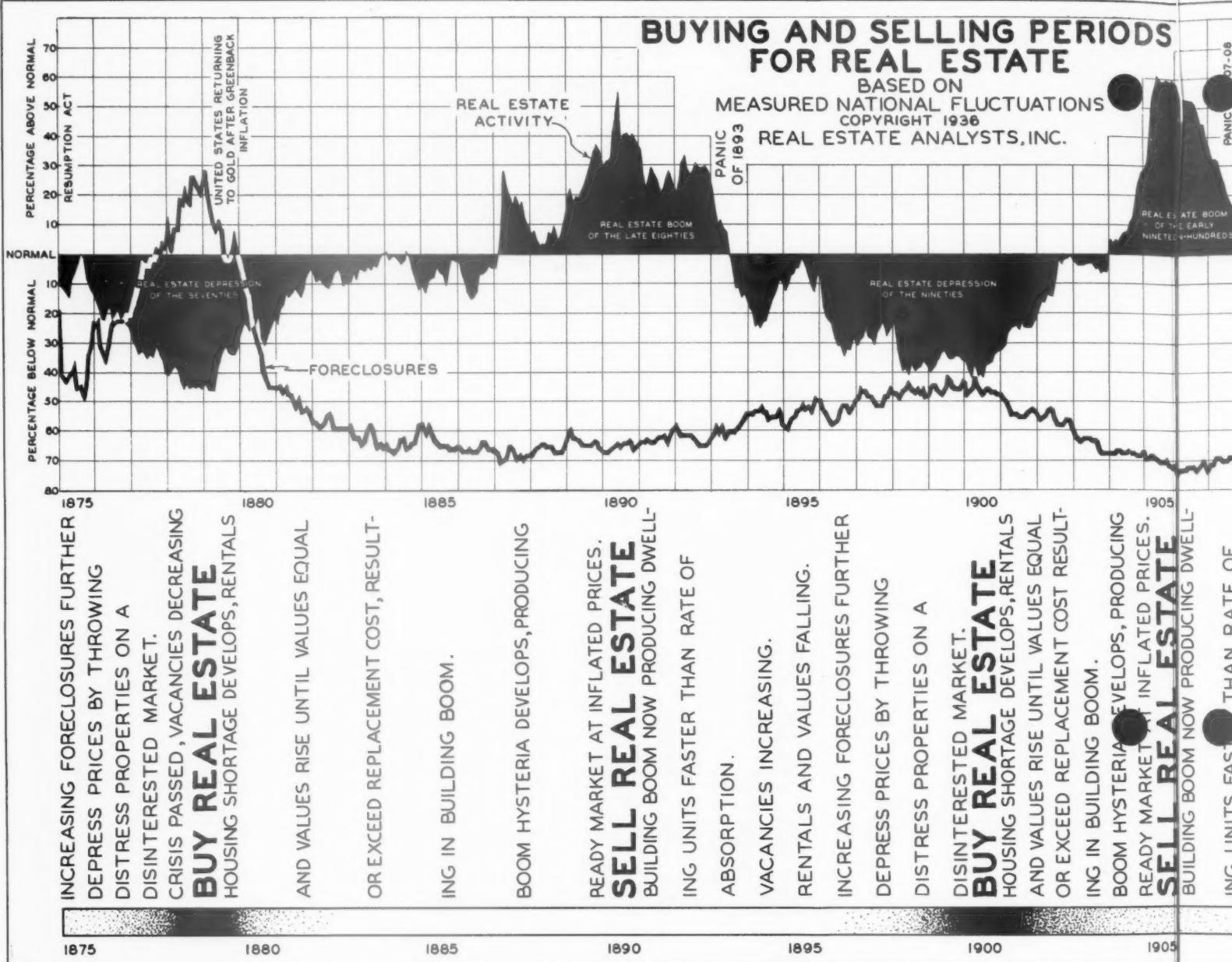
1. The probable percentage of increase in value in any given time.
2. The net cost or profit from carrying during the period of appreciation.
3. The safe margin requirements.

First: Investments made in industrial stocks in 1919 showed a $28\frac{1}{2}\%$ increase in 1925. Utilities showed a 61% increase during the same period; and rails, a 20% increase. Real estate showed better than 100% increase during the same period. The major rise in the stock market came after 1925, when real estate had already shown its greatest appreciation. This same experience will be repeated. During the next five years real estate will appreciate in value by a larger percentage than will good conservative stocks.

Second: The net cost or profit from carrying an investment during the period of appreciation is of major importance in choosing the best investment. In commodities the warehousing cost and loss of interest on invested capital is often a considerable item. Stocks can be bought today to show a return of from 3% to 6%. Real estate can be bought today to show a net of from 3% to 10%.

Third: Real estate rates a preferred position in relation to stocks because of the relatively small percentage of the purchase price which can be safely paid in cash. It is unwise to buy stocks on narrow margins. A sudden temporary drop in a rising market may wipe out the margin account--a situation causing leading investment counselors to advise against any but outright purchases. Suppose then, \$2000 were available for investment. On a 55% basis (the minimum allowed by the Federal Reserve Board) \$2000 would buy \$3636 worth of stock. Were this stock to increase 50% in value, it would be worth \$5454. If sold at this price, and the loan of \$1636 paid off, \$3818 would remain, showing a profit of \$1818 on an investment of \$2000, or a capital appreciation of 91%.

Consider the case of real estate. In today's market it is possible to buy real estate on a 20% equity basis with perfect safety. There are no rapid fluctuations of price which could wipe out the equity as it might be wiped out in the stock market. Equities of 20%, with 80% loans, are now accepted practice on improved real estate. An investment of \$2000 in real estate would thus purchase a \$10,000 property. Good properties, which will carry the interest, taxes, and operating expenses, can be purchased today in almost every locality. (continued on page 4)



BUYING REAL ESTATE FOR

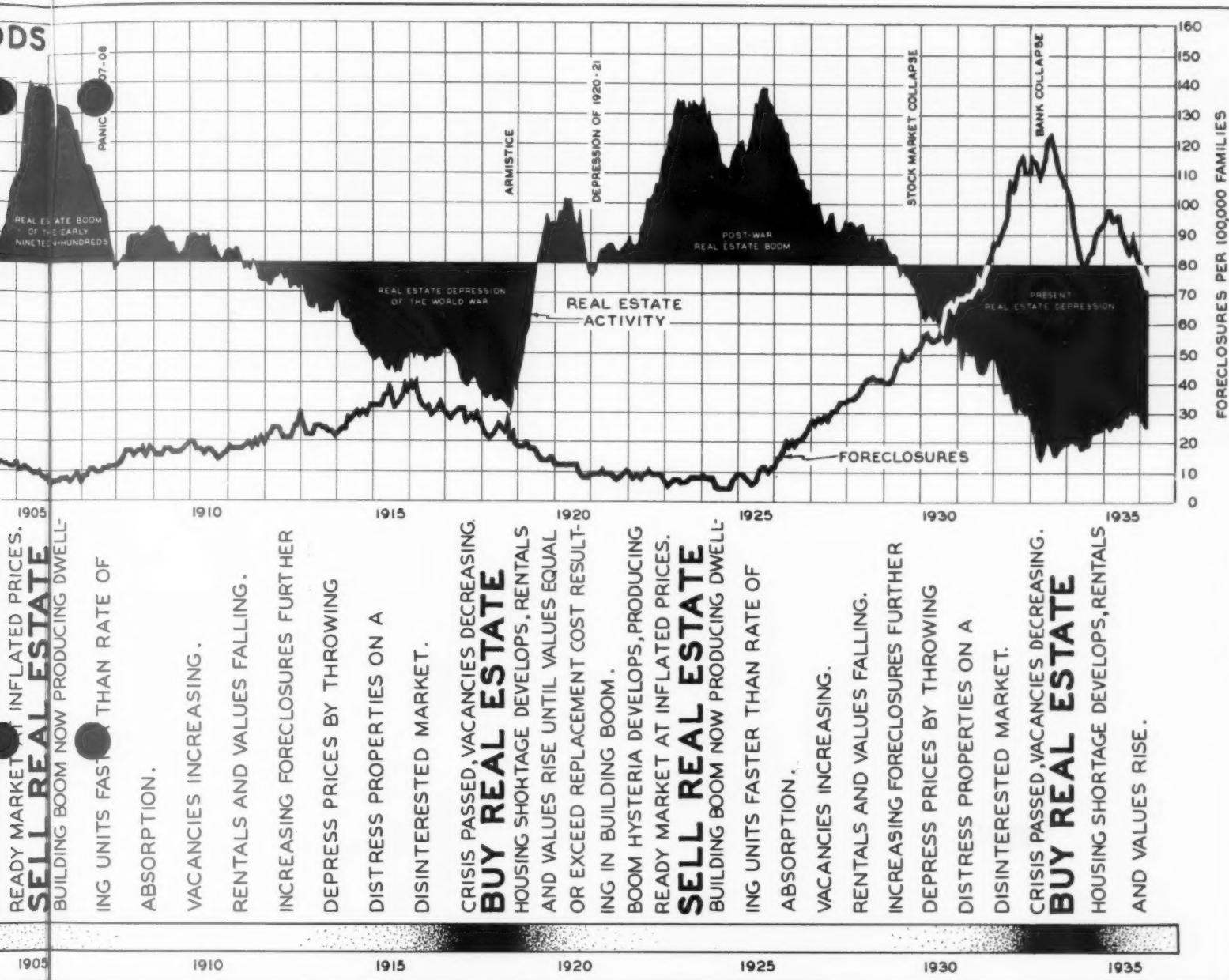
IN the last sixty years there have been only four relatively short periods in which average improved real estate in typical communities could be purchased for phenomenal profit. Each of these periods was the result of practically the same causes occurring in practically the same sequence. We are still in the fourth of these periods.

The chart above shows these periods with the sequence of events which preceded the buying and selling periods in each case. The narrow ribbon at the bottom of the chart shows in black the unusual buying periods. Note the regularity with which these periods appear.

Note, too, how the same factors reappear in each period in the same order. Low real estate activity and high foreclosures have always accompanied buying periods in the past. Common sense alone tells us that the less activity in buying and selling real estate and the more foreclosures, the greater the congestion of distress properties on a disinterested

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market, and the greater the bargains obtainable by those able to buy.

The time to sell real estate is when real estate activity is high and foreclosures are low, meaning that a great demand for desirable properties, with no distress bargains available, naturally results in high prices for those pieces offered for sale.

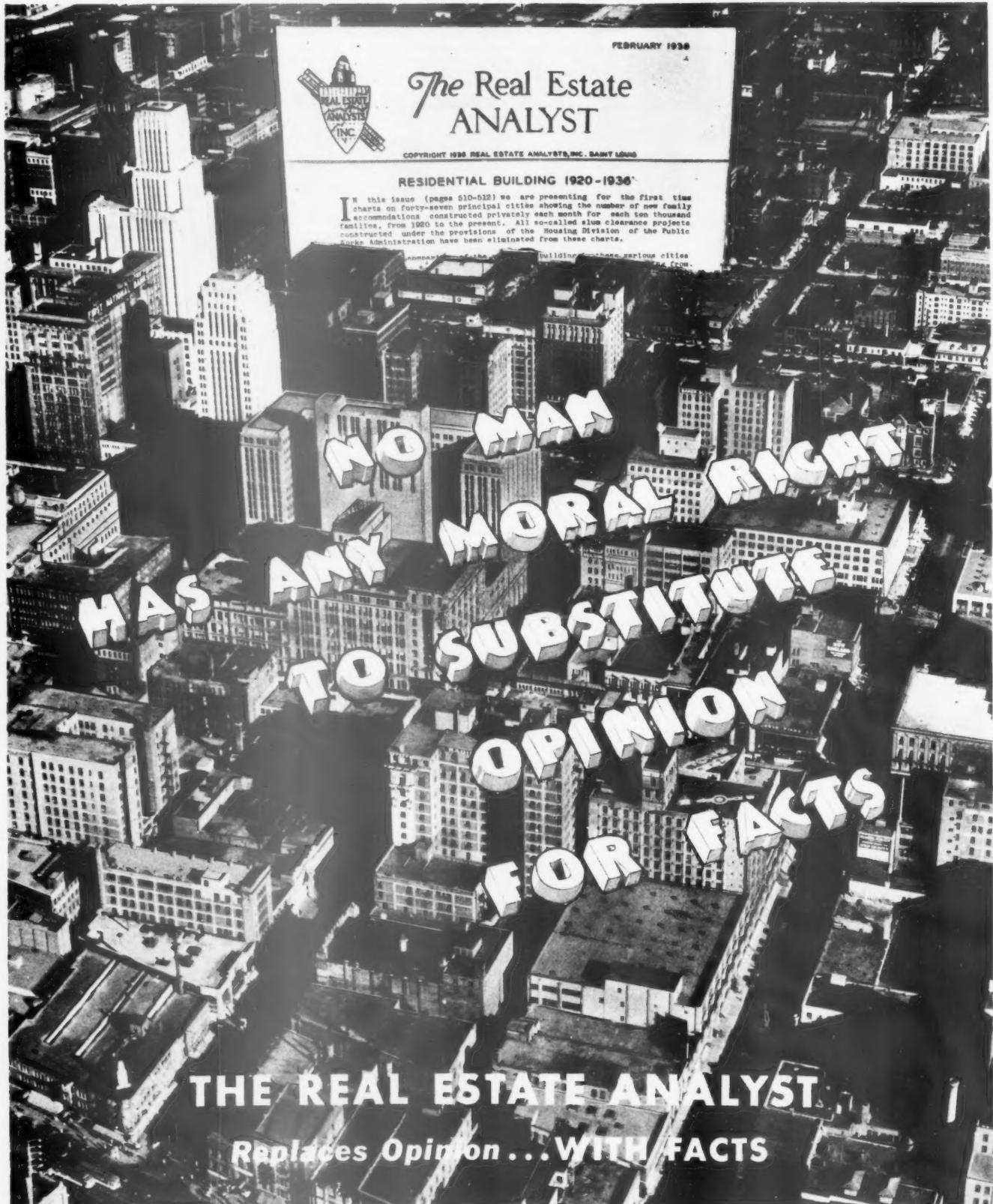
There is no reason why the present period should prove an exception in the reactions which have always resulted in the past from identical causes. Note, in the above chart, how the sequence of events in the present upturn is following the sequences of the past. The exact timing of these events may change slightly, but there is no present possibility of their occurring in any order other than the one shown on the above chart.

Fortunes can again be made in real estate...by those who can and will invest while prices are still at their present temporary low level.

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(continued from page 1)

Conclusion: If this hypothetical property increases 50% in value during the next five years, it would be worth \$15,000. Were the equity sold, it would bring \$7000 less sales commission, or a capital appreciation of from 225% to 250%. In the event that both stocks and real estate double in value (they did better than that in the last boom), then the stock investment would show a capital appreciation of about 260%; while real estate would show a gain of from 500% to 600%.



NO. 365



Factual Selling

CORRELATED FACTS THAT WILL HELP YOU SELL THE FUTURE OF REAL ESTATE

A CONCISE MONTHLY SALES MESSAGE... PRESENTING MEASURED FACTS CONCERNING REAL ESTATE FUNDAMENTALS AND TRENDS... ALL FACTS, FIGURES AND MATERIAL ARE FROM THE REAL ESTATE ANALYST REPORTS... PUBLISHED BY

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THE BEST BUYING PERIOD FOR REAL ESTATE AMERICA HAS EVER KNOWN IS HERE NOW

Only four times during the past sixty years has real estate offered the buyer such tremendous opportunities for profit.

The salesman who is able now to present the true facts about real estate will do his clients an unforgettable service.

Real estate is today the best investment obtainable.....capable of paying from 500% to 600% profit during the next five years.....and stands practically alone as an almost certain hedge against inflation. (See Client's Confidential Bulletin, No. 365)

When your clients buy is more important than what they buy. All real estate will increase in value. Time is the big factor to consider in buying either for investment or for use. Thus, the two urgent buying incentives are (1) investment for large profits and as a hedge against inflation, and (2) purchase for use as a home and as a positive hedge against inevitable, heavy rental increases.

Most people wait until their friends have bought property, held it for awhile, and resold at a profit before they buy. This happened in the last boom and it will happen again. Most people buy too late, after price increases have already made a safe profit for more courageous buyers.

Opportunities to buy real estate at present undervalued prices will not last long. A real estate boom is on the way. Prices will soar and opportunities for phenomenal profit will diminish with increasing activity.

The way to make money in real estate is to buy when everyone else wants to sell, and sell when everyone else wants to buy.

There is plenty of money available that must now seek "inflation-proof" investments. Real estate is the logical answer.

Use the "Buy and Sell Chart" in the Client's Confidential Bulletin to get the facts over to your clients. Put on all the pressure you can to make them buy now.

NO MAN HAS ANY MORAL RIGHT TO SUBSTITUTE OPINION FOR FACTS





Factual Selling

CORRELATED FACTS THAT WILL HELP YOU SELL THE FUTURE OF REAL ESTATE

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"THE TREES LOOK BIG AND THE STARS LOOK SMALL"

Your success in selling the future of real estate will depend primarily on your ability to detach yourself from the present depression atmosphere. This is very difficult to do. All peoples have always thought that what was - would continue. It seems to be human nature to believe that the future will be like the present although we all realize that the present is quite different from the past.

Conscientious appraisers in 1917 and 1918 assumed in their appraisals that the rental levels of that period were not far from normal. In 1925 they made the same mistake, and many of them today with as little justification are again assuming that present levels will not be greatly increased.

The only way a real estate operator can keep his perspective is to constantly study the present position in the slowly moving cycle. Unfortunately, the average individual is so intrigued with the constant reversal of direction in the quickly moving pendulum that he fails to notice the slow progressive movement of the hour hand as it records the steady progress from daybreak to high noon. Those standing on the beach are fascinated by the white-capped waves, but few are conscious of the rising or ebbing tide. The tide in real estate takes from fifteen to twenty years to rise and fall. Its movement is so slow that few people see beneath the frothing surface.

Prospects are not interested in buying at the present time. If many of them were, it would not be the time to buy but the time to hold or sell. It is hard work to sell real estate at the time it should be sold. It can only be done by the proper combination of facts, enthusiasm and patience.

Buying lags in a period like the present because those who can and should buy do not understand the basic factors which control real estate movements. These well-intentioned individuals have become so accustomed to depression prices that they do not consider a piece of real estate a bargain unless it is priced below the distress level.

Show your prospects the self-evident facts. Explain to them that the already heavy rental increases, analyzed in the current Confidential Bulletin, are forerunners of higher values which will gradually wipe out present buying advantages.

A
B
C

D

Z



Factual Selling

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THE PURCHASE OF EVERY PIECE OF REAL ESTATE INVOLVES A RISK

One man has said that any decision in life involves the comparison of probable risks. Nothing is certain. This is true not only today but has been true at all times in the past. All of the investments of our predecessors from the earliest reported history has been made with considerable risk. If this were not true so many people would endeavor to take advantage of an absolutely certain profit that the market would consist solely of buyers, forcing prices to a point where no profit could be made.

Government bonds are risks and, we believe, very great ones at present. With the decrease in the purchasing power of the dollar, which we anticipate during the next ten years, even though Government bonds stay at par, which we do not expect, the purchasing value of the money they represent will decline.

When the Mayor of New York in the great panic of 1837 wrote, "God help the owners of real estate," he was expressing an opinion which was current at the time. Taxes were at record heights, having fallen little from the level of the preceding boom. Foreclosures were higher than they had been at any previous period in history. Vacancies were high, rents were low, and still dropping. Bankruptcy of business concerns had become the rule. Unemployment in relation to the population at the time was probably as great as it is today.

During this period of economic distress John Jacob Astor had the vision and the courage to buy real estate, and the real estate he bought made him incredibly rich. The man who waits for mathematical proof before he is willing to invest will not invest. He will see others, whose courage and initiative he lacks, make the profits he desires, but his place will remain among those cold and timid souls who know neither victory or defeat.

Unpredictable risks are less in a commodity like real estate moving in a slow cycle (15 to 20 years) than they are in the stock market which may tumble in an hour on the flash report of some unforeseen occurrence.

While all courses of action contain some risk, we believe that the risks involved today in the purchase of real estate are far less than those involved in the purchase of most other types of investments.

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SAINT LOUIS

WILL BUILDING COSTS INCREASE OR DECREASE IN THE PERIOD AHEAD?

WHETHER it is wise to build at the present time is partially dependent on future construction costs. If lower costs are in prospect, new building, which can be postponed should be delayed to take advantage of the saving. On the other hand, if higher costs are probable, those expecting to build at any time during the next few years should take advantage of present low cost levels.

No one can predict positively the immediate trends in building costs. We can say, however, that the factors which would tend to cause building costs to advance during the next few years seem far stronger at the present time than those which might bring about a fall. The long chart shown on the second and third pages indicates the fluctuations of general prices and of building material prices during the past one hundred and thirty-six years. On this chart the ups and downs of the average price of all commodities are shown by the heavy black line. The fluctuations of building material prices are shown by the light line. The dotted lines, where they occur, show prices in gold in periods when the United States has suspended gold payments, and as in the present period, revalued the dollar. The black areas at the bottom of the chart indicate the depression years.

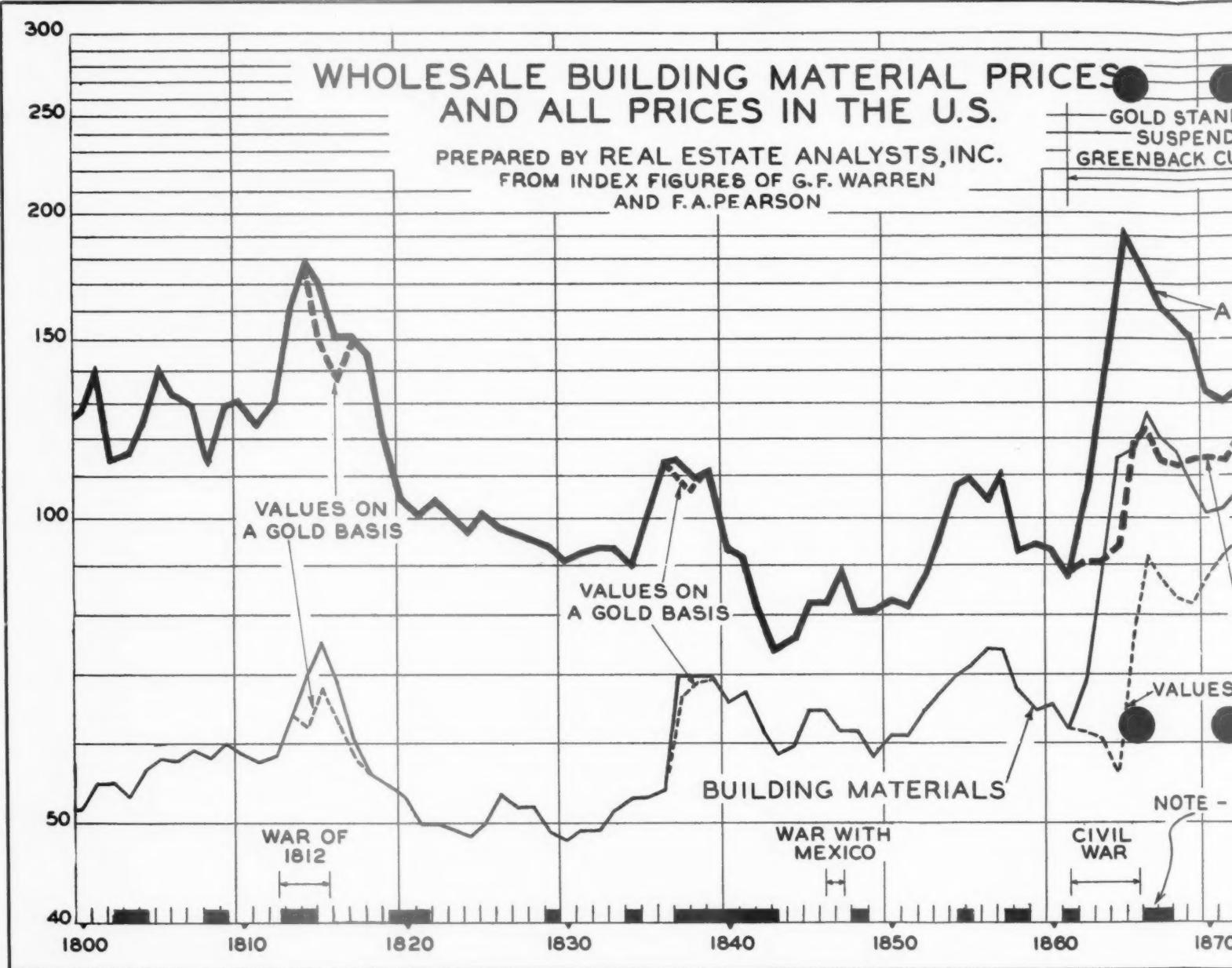
There are three peculiarities about the behavior of building material prices which lead us to believe that the trend during the next few years is most apt to be up. These characteristics are:

FIRST: Building material prices have shown a constant tendency over the entire period to gain on general prices. Starting in 1800, our index was 59% below the index for general prices. This spread has shrunk constantly until the building material index passed the general price line and last year stood 32% above it. The small chart on the back page shows graphically this increase in building material prices in relationship to general prices. The line on this chart shows the relative amount of general commodities which has been necessary at any time in the past to purchase a fixed amount of building materials. It will be noticed that, if it took one hundred average units of general commodities to purchase one hundred average units of building materials in 1800, it took more than three hundred units of general commodities to purchase one hundred units of building materials in 1935.

There are many reasons for this upward trend in building material prices. The increase in the amount of freight which must be paid on lumber, which originally was cut in the neighborhood of its final use and which today, in a large percentage of cases, is shipped tremendous distances, is partially responsible. The relative failure of mass production methods applied to the fabrication of houses in comparison with the scientific advances in many other lines must also carry its part of the blame. The fact remains, however, that the upward trend has been quite definite.

SECOND: The second striking peculiarity which we find in building material prices is that, if the general price level advances, building materials also advance in price by at least as great a percentage in spite of the fact that there may not be any great amount of building at the time. This would indicate that building material prices are determined to a greater extent by the general purchasing power of money than they are by the supply of and demand for building materials. The rapid rise in building material costs in the early 1800's can be explained on no other basis. The rises starting in 1837, in 1862, and in 1915 are all due to the rapid rise in the general price level, or, putting it another way to the decrease in the purchasing power of the dollar.

(Continued on the next page)



(Continued from preceding page)

It is a safe assumption that, if general prices return to the 1926 level by 1938, building material prices in all probability will then be about 80% above the pre-war level in contrast with an increase of from 40% to 50% above pre-war for the general price level.

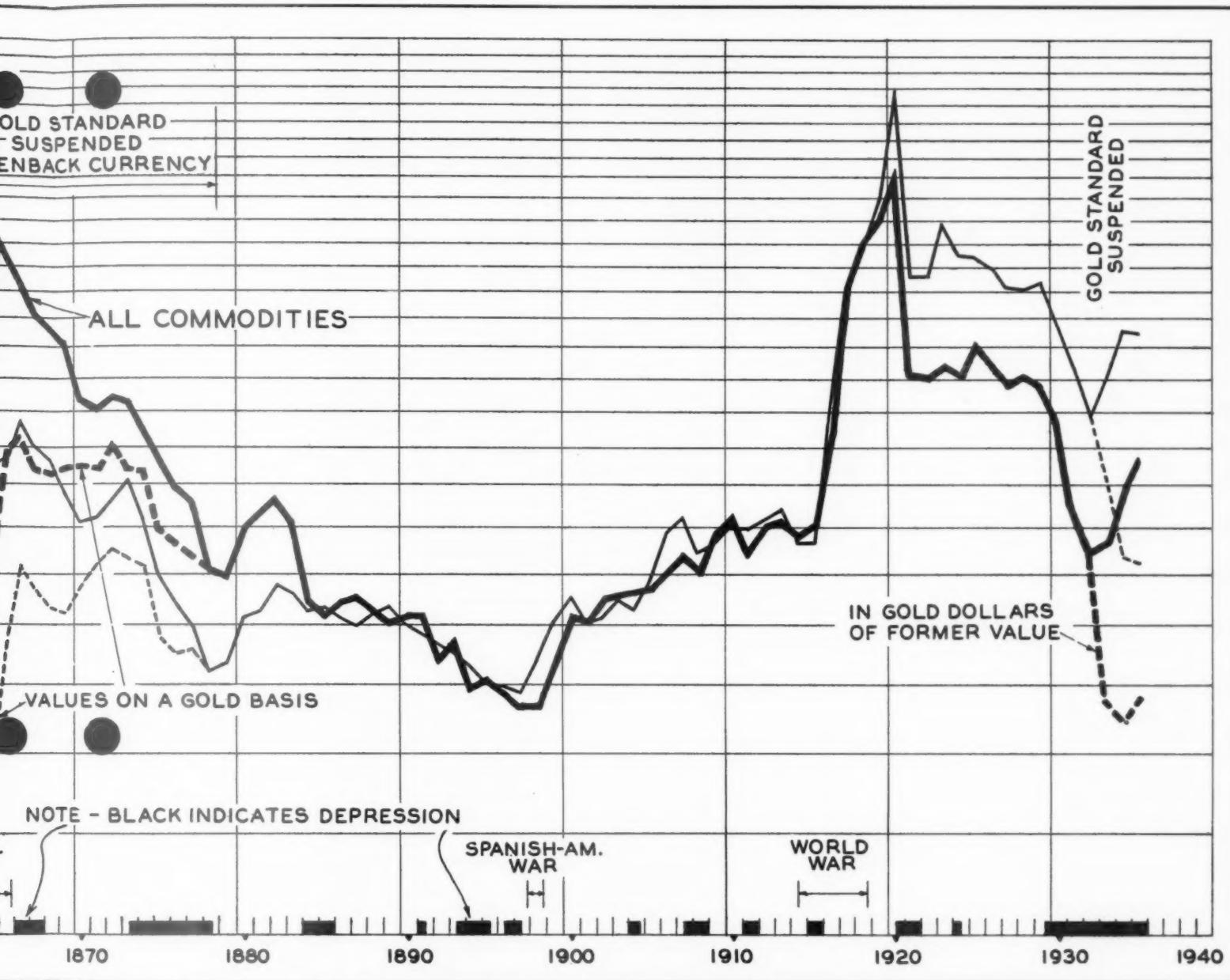
THIRD: It will be noticed at the right end of the chart that both general commodity prices and building material prices are still extremely low if measured in gold dollars of pre-1933 value. Much of the increase experienced so far in general commodity prices and in building material prices is due to the revaluation of gold. Obviously, values in gold will increase materially as recovery gets further under way. This increase will be added to the increase already experienced, carrying the price levels beyond their 1926 mark.

In addition to the increases expected over a period of years in building material prices, building labor costs will also advance. The long cessation of building has reduced the available number of skilled mechanics to the point where, as soon as building starts in any volume, a decided shortage will force up wage scales.

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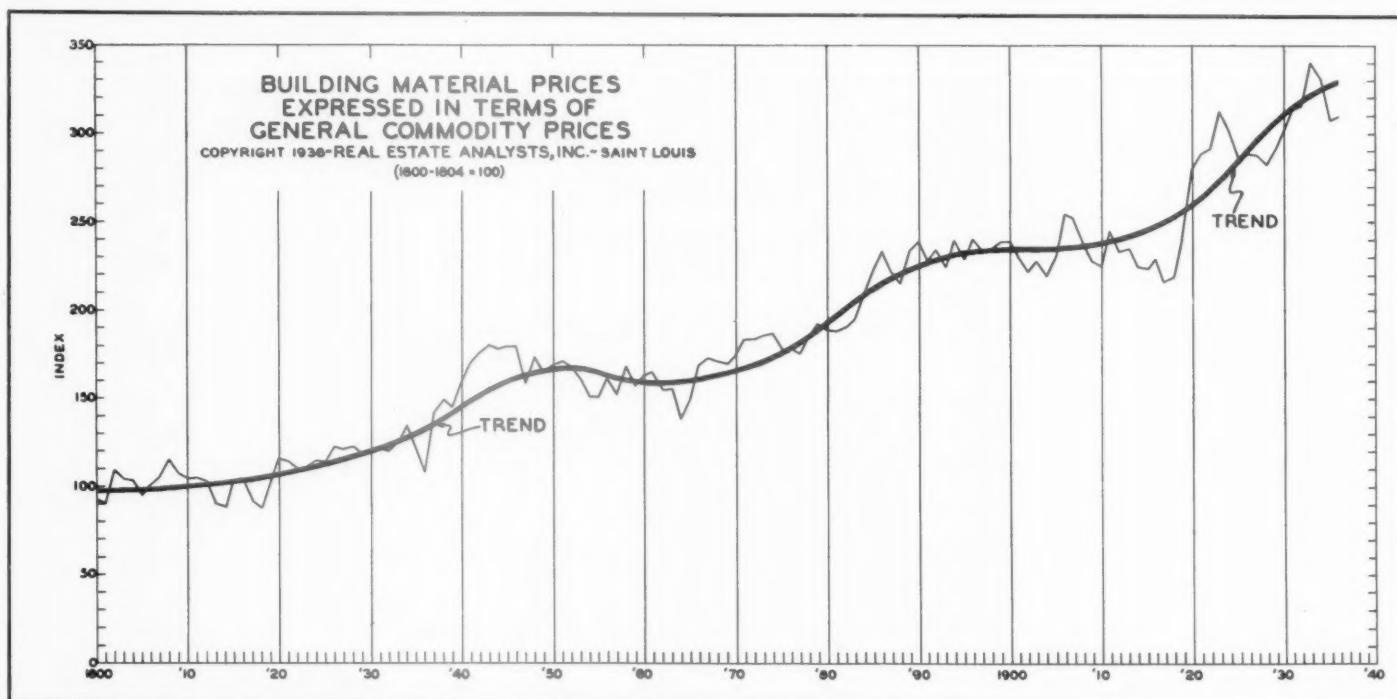
Other increases in the cost of the completed buildings constructed in the future may be expected in the increased profit the builder will demand for his work. New building under construction today is on a very highly competitive market, and profit to the builder and the sub-contractor is almost negligible. This is always true on a buyer's market; but as new building gradually increases in volume it will reach the point where the experienced operators will have a fairly large volume of business, and will be able to command and secure a far larger percentage of profit. The profits in buildings will triple during the next five years.

There may be some question concerning the future of financing costs, but we are inclined to believe that money will not be as cheap four or five years from now as it is at the present time. There has been very little demand for commercial loans on the part of solvent business concerns during the past few years. The monetary policies of the Administration have caused tremendous cash reserves to build up in our banks and financial institutions. As commerce and industry again come back into the borrowing field, these excess reserves will find profitable employment, reducing the present pressure for low interest rates and discounts will increase.



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Will prefabrication of buildings change these trends? We believe that they will, but we believe that factory made houses are coming in too slowly to be of major interest during the next building boom. We are positive, however, that the newer type house will be the major factor in the building boom which will follow the one now in prospect. As these building booms occur at intervals of from fifteen to twenty years, there is no immediate cause for rejoicing or alarm in the change in price levels in the relatively near future.

Let us summarize these conclusions regarding the outlook for building costs. We believe that over a period of years building costs will rise because:

- (1) An upward trend has been discernible for at least one hundred and thirty-six years;
- (2) Increases in the general price level have always brought increases in building material costs, and we believe it is logical to expect increases in the general price level during the next few years;
- (3) Most of the increase thus far in building material prices is due to the devaluation of the dollar, leaving the rise from an increase in demand still ahead of us;
- (4) We believe that contractors and sub-contractors will successfully demand larger profits as volume gets under way;
- (5) We believe that financing costs are now at a minimum, with a very strong chance of an increase as industrial activity reduces excess bank reserves.
- (6) The prefabricated house is coming in too slowly to seriously affect price levels during the period ahead.

Our advice, therefore, would be to build at the present time if the building as contemplated can be put to immediate use. If, however, the saving in building cost because of market conditions would be offset by an excessive vacancy during the early life of the building, it is far wiser to wait until demand passes the present supply of space, building at a higher cost level for higher rents and values. This is certainly true of office buildings in almost all cities, of apartment buildings in most cities; but it is no longer true of single family residences or duplexes except in a very few communities where recovery is lagging.



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IS THE RATE OF OBSOLESCENCE ON IMPROVED REAL ESTATE INCREASING?

DURING the past year I have spoken before groups of bankers, mortgage men, real estate operators, and owners in many of the principal cities of the United States. I have found in almost every city a feeling on the part of many individuals and organizations that the rate of obsolescence on buildings now standing will be more rapid than it has been at any time in the past. As far as this feeling can be analyzed it seems to be based on the following factors:

1. New materials are rapidly replacing the building materials to which we are accustomed.
2. New methods of heating and winter and summer air conditioning seem probable in the average home in the relatively near future.
3. Prefabrication will decrease building costs to a point which will greatly lower the values of older type buildings now standing.

These ideas are all interesting and are certain deterrents to the conscientious salesman who has foremost in his mind the good of his prospect. If this feeling on the part of many individuals has any real foundation in fact, values cannot increase greatly on most buildings now standing. Before we concede the point, however, let us look at the facts.

1. Are new materials rapidly replacing the building materials to which we are accustomed?

Our experience is that, while a few new materials are coming into general use, by far the greater amount of building now being done and to be done during the next few years will employ the accustomed materials and methods. Undoubtedly steel framing, prefabricated panel construction, and many other innovations will gradually creep into the building field, but in my opinion their entrance will be quite slow. None of these materials offers economies in the production of the same number of cubic feet of new construction, and their appeal must be made largely on the basis of increased quality. The great demand in the housing field today, however, is primarily for houses in the lower price range and not necessarily for a substitution of better materials in houses already beyond the range of the great mass of home buyers.

2. Are new methods of heating and of winter and summer air conditioning probable for the average home in the relatively near future?

We are not at all certain that the changes, which many people believe on the horizon, are coming as rapidly as they suppose or that they will have the effect on values generally assumed. We have studied housing over a long period of years. In 1850, when many of our studies started, the very fine house

contained no plumbing, no central heating, no built in provision for illumination or cooking, no hardwood floors, no electrical refrigeration, and no garage. In 1850 the very unusual house was advertised as having a hydrant in the yard. This was the height of luxury. By the end of the Civil War in the luxurious home the hydrant had moved into the kitchen. In the seventies the advertisements started mentioning gas lights. Not until the middle eighties did modern plumbing and central heating become the talking point in selling quality homes. In the middle and late nineties electric lights came into the picture. Around 1905 or 1906 gas heaters were unusual features. From 1910 to 1915 hardwood floors were the talking points of the most modern house. Electrical refrigeration for apartments was not stressed until about 1925. Air conditioning is now creeping into a very few of the advertisements of better class homes.

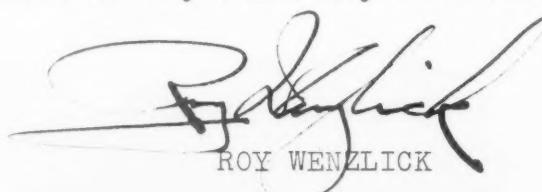
We doubt whether air conditioning, even though it comes in as rapidly as many of its enthusiasts expect (which we doubt), can compare with the introduction of modern plumbing and central heating, as we believe that it will not have as great an effect on values as these changes brought in the eighties and nineties. Just as houses built without these features were modernized at relatively small cost, so houses can be modernized to include the developments in the field of air conditioning. Certainly at first real air conditioning will be restricted to expensive homes.

3. Will prefabrication decrease building costs to a point which will greatly lower the values of older type buildings?

Eventually it may, but we believe that this point is still so far distant that no one interested in real estate, bought for use or for speculation in the next ten years, should let it seriously influence his judgment of values. We have studied all types of prefabrication now on the market and know of none which holds any immediate threat to the standard methods of construction on a price basis.

It seems to me, therefore, that these arguments for not buying real estate at the present time are no more valid than they have been at any time during the past hundred years. The man who waits for the ultimate refinement in the article he contemplates purchasing must necessarily postpone indefinitely his purchase of automobiles, radios, clothing, and even foods. Nothing has yet reached the stage where further progress is not probable. The man who resigned from the patent office a decade before the Civil War, giving as his reason that everything had been invented and that there could not therefore be any future in the patent office, was the only man who could go out and buy with enthusiasm, safe in his conviction that the articles he purchased would not be made obsolete by improvements in the future.

The man who refuses to consider improved real estate as an investment because of the distant but probable improvement in housing should not purchase a radio, for clearly the almost perfect reception of sound will yet be supplemented by television. The colored talking moving pictures of the present should leave him cold, because they do not yet carry the impression of depth, which will probably be their next improvement. Today's automobile, in spite of its apparent mechanical excellence, he would find of little interest as clearly the car of the future, probably using fuels or methods of propulsion yet uninvented or unthought of, will surpass in comfort, safety, economy, and speed anything we can now imagine. I believe that the obsolescence risk in the purchase of real estate at the present time is no greater than that risk must always be in the purchase of any commodity in a changing and developing world.



ROY WENZLICK

CONFIDENTIAL BULLETIN

PUBLISHED IN THE INTERESTS OF THE REAL ESTATE INVESTOR BY

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SAINT LOUIS

VARIATIONS IN RURAL LAND VALUES 1912-1936 AND THE EFFECT ON VALUES IN METROPOLITAN CITIES

GENERAL prosperity in the United States is not possible when any large group in our population finds it impossible to produce enough to afford the standard of living to which they have become accustomed over a period of years. Such was the condition in the United States a few years ago among the farmers. The fact that it is still the case among large numbers of our city dwellers is definitely retarding the rates of recovery in cities. We believe that these rates will be much accelerated within the next few years.

In the early part of 1933 farm products had declined to 40.9% of their 1926 level. The lowest point reached by all commodities other than farm products was slightly more than 62% of the 1926 level. This disproportionate drop in farm products quite naturally affected the value per acre of all farm real estate.

As few large cities can divorce themselves entirely from the economic effects of their surrounding agricultural trade territories, these conditions seriously affected business in the cities and urban real estate values. The city surrounded by a more prosperous agricultural district will make more rapid strides than one whose trade territory is lagging.

The charts on the value of farms per acre by states from 1912 to 1936 printed in this report are therefore of considerable interest not only to the person interested in farm real estate but to the city operator as well.

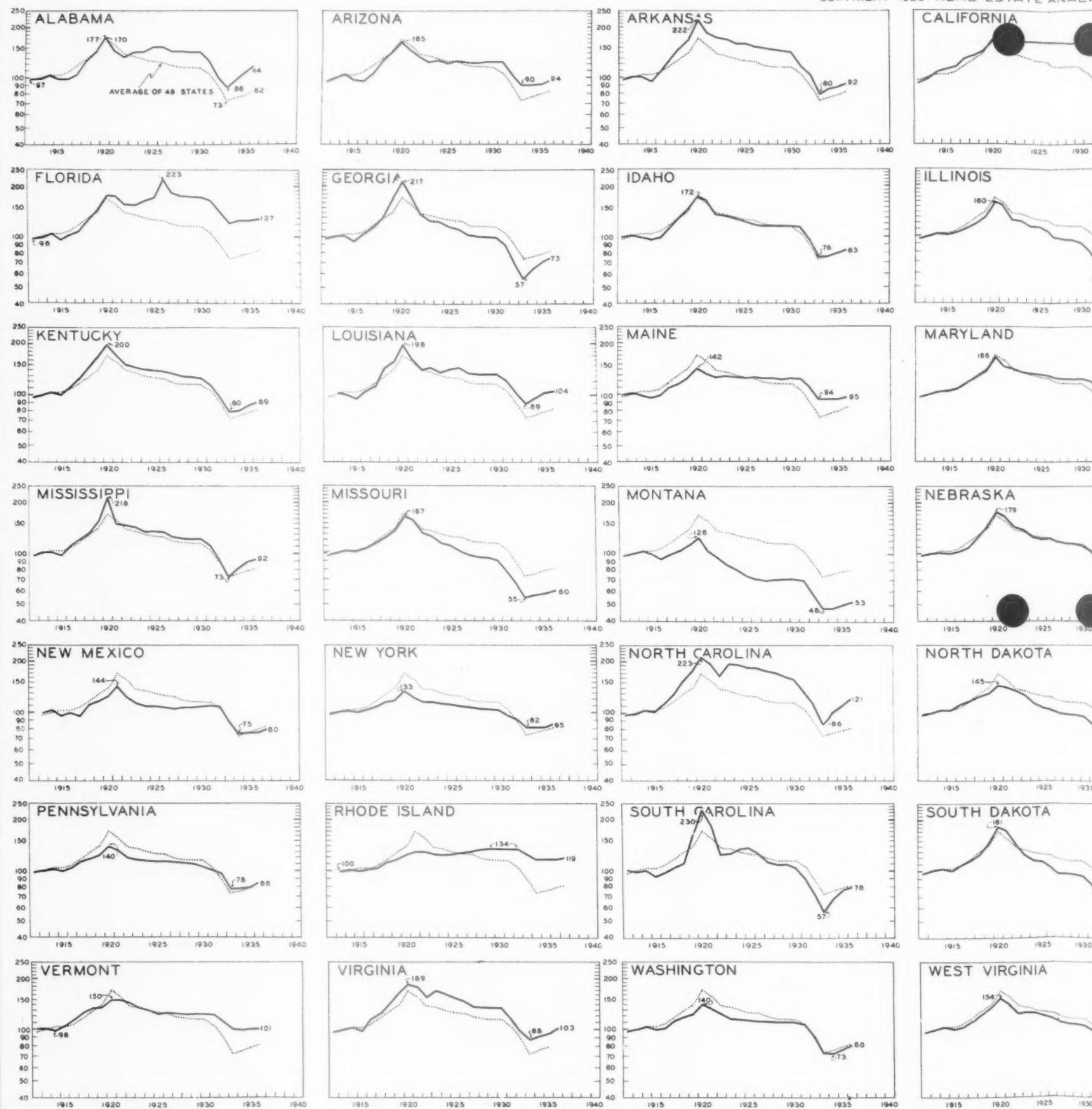
From 1935 to 1936 farm values increased in all states in the Union with the exception of Massachusetts and Vermont. The 1936 index of values in these two states is identical with the 1935 one. As both of these states experienced very little depression in farm values in 1933, it is quite natural that they should experience a slower rate of increase than those states experienced which dropped quite rapidly during the worst of the depression and which are now recovering from the depression lows.

At least three points should be kept in mind in analyzing the situation shown by these charts.

1. The later changes in values on these charts are, of course, of greater importance in their effects on city real estate
(continued on page 4)

FLUCTUATIONS IN THE ESTIMATED VALUE AVERAGE OF 1912-1936

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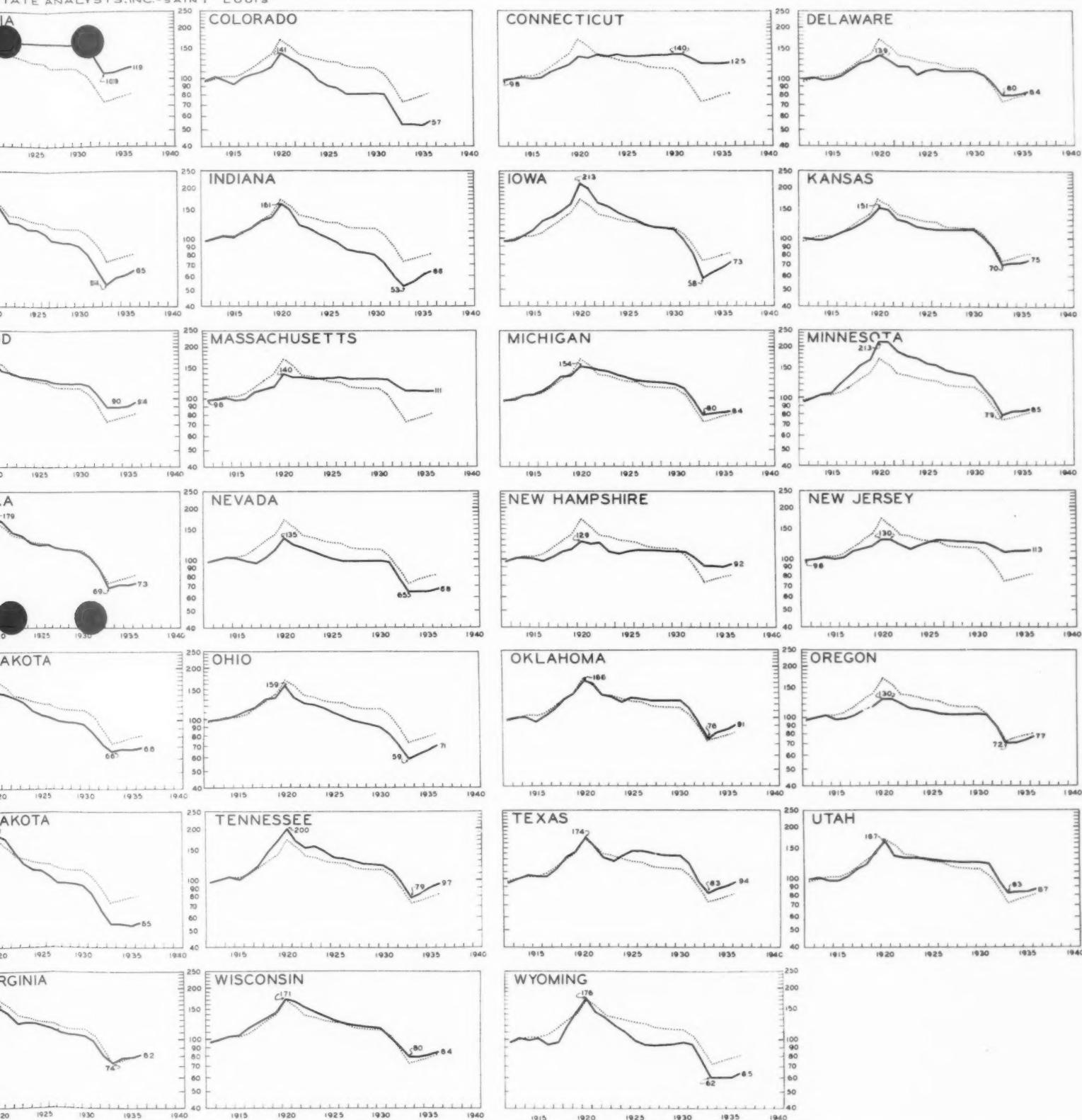
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VALUE PER ACRE OF FARM REAL ESTATE

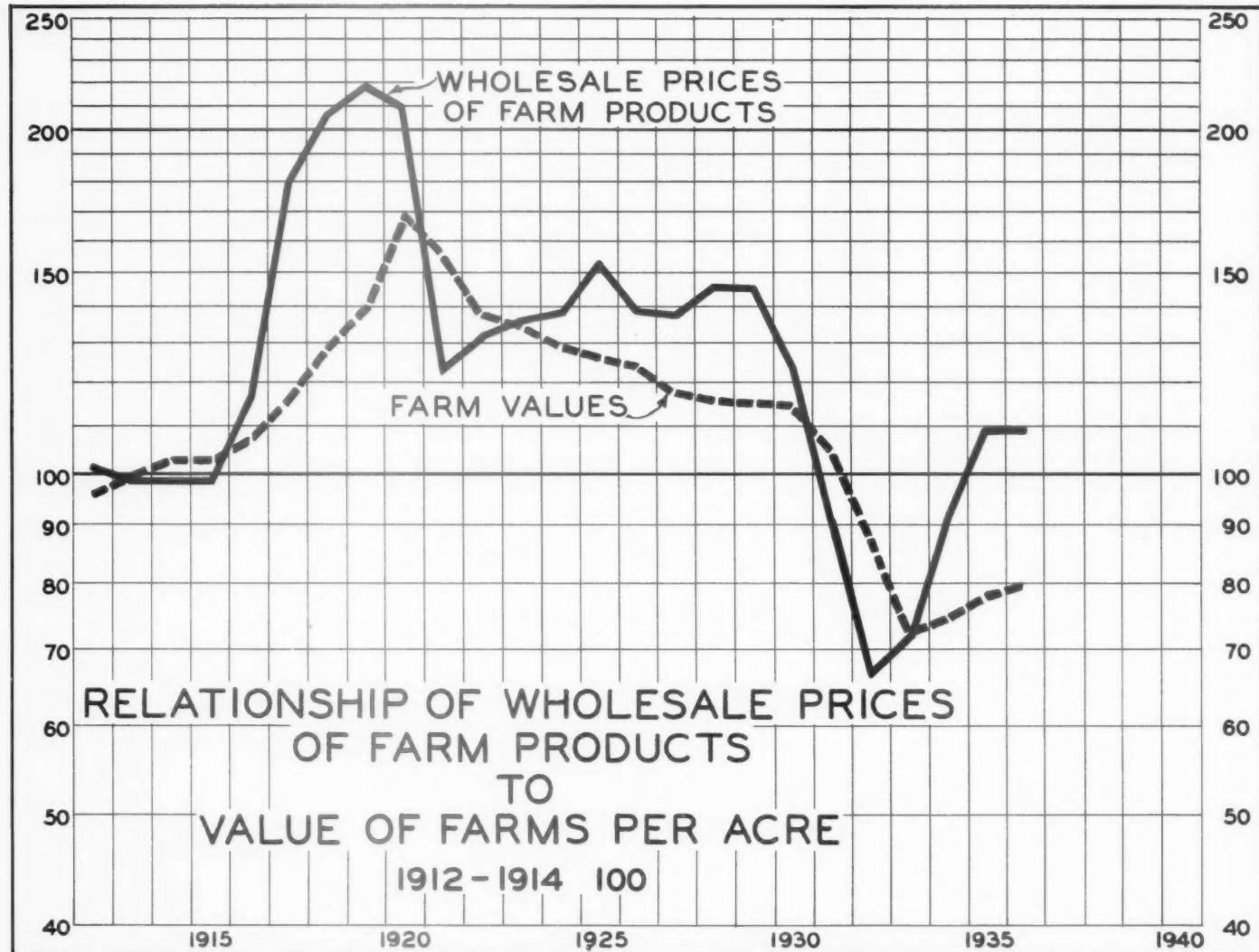
1912-1914 = 100

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(continued from page 1)

today than are the earlier ones. If in your state the inflation of farm values in the twenties failed to keep pace with the national average, leaving it 10% below at the peak, and it has since been below by about the same percentage, the greater part of the readjustments necessitated by this loss in relative standing has already taken place. It is more important to learn whether the spread between the national and state line is increasing or decreasing. The effect of the coming boom in real estate should be greater in those communities where the local line is gaining on the national line.

2. Allowance must be made in those states where unusual booms in the twenties in urban properties carried farm properties higher than they would otherwise have gone. Allowance must also be made in those states where irrigation has increased the values of some properties sufficiently to cause a marked increase in the state average although many portions of the state have felt little increase.

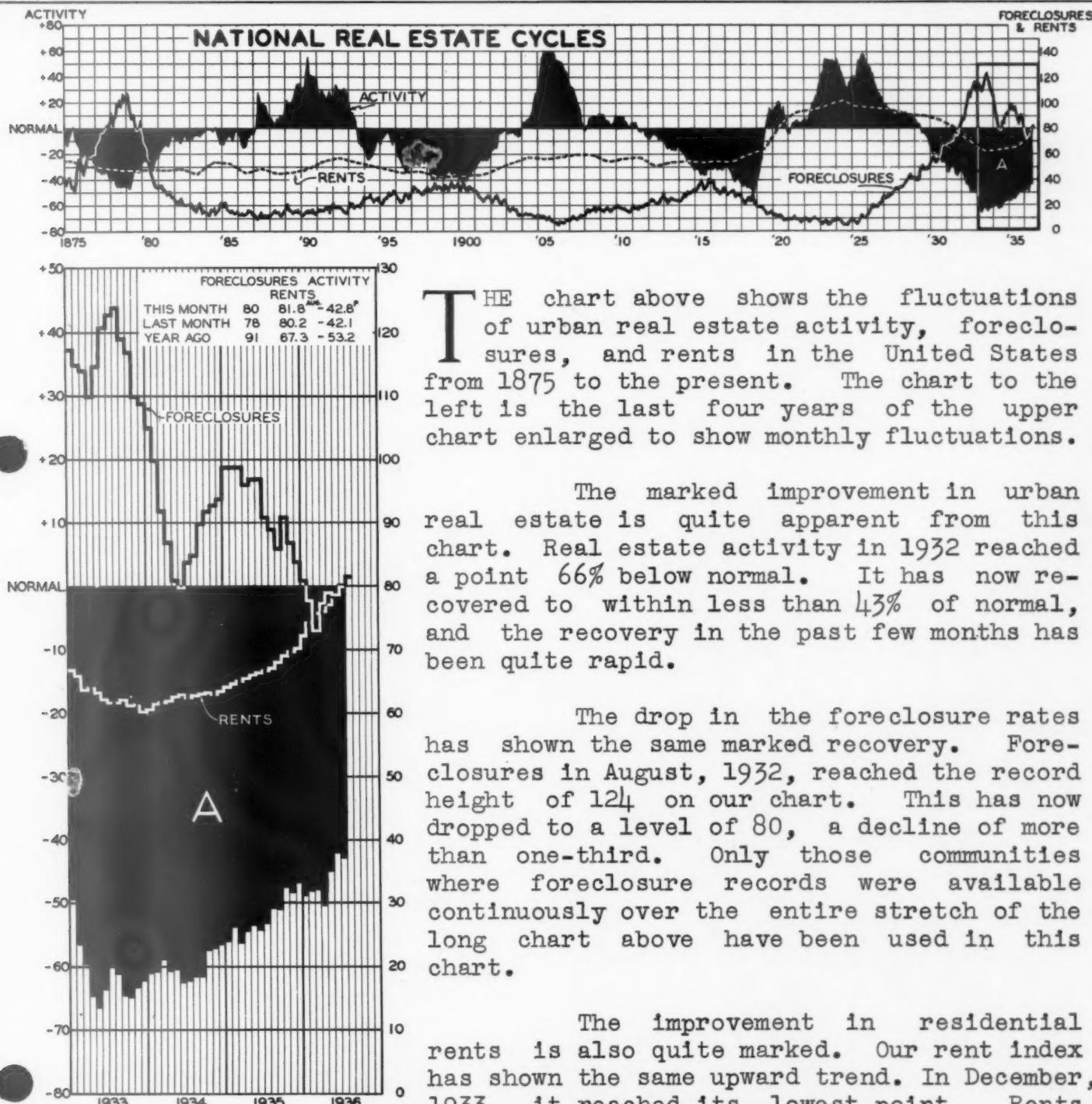
3. The effects of the recent unusual droughts are apparent in the slowness of recovery in those states primarily affected. In the last analysis the values of farm lands depend on the net incomes which can be derived from them.

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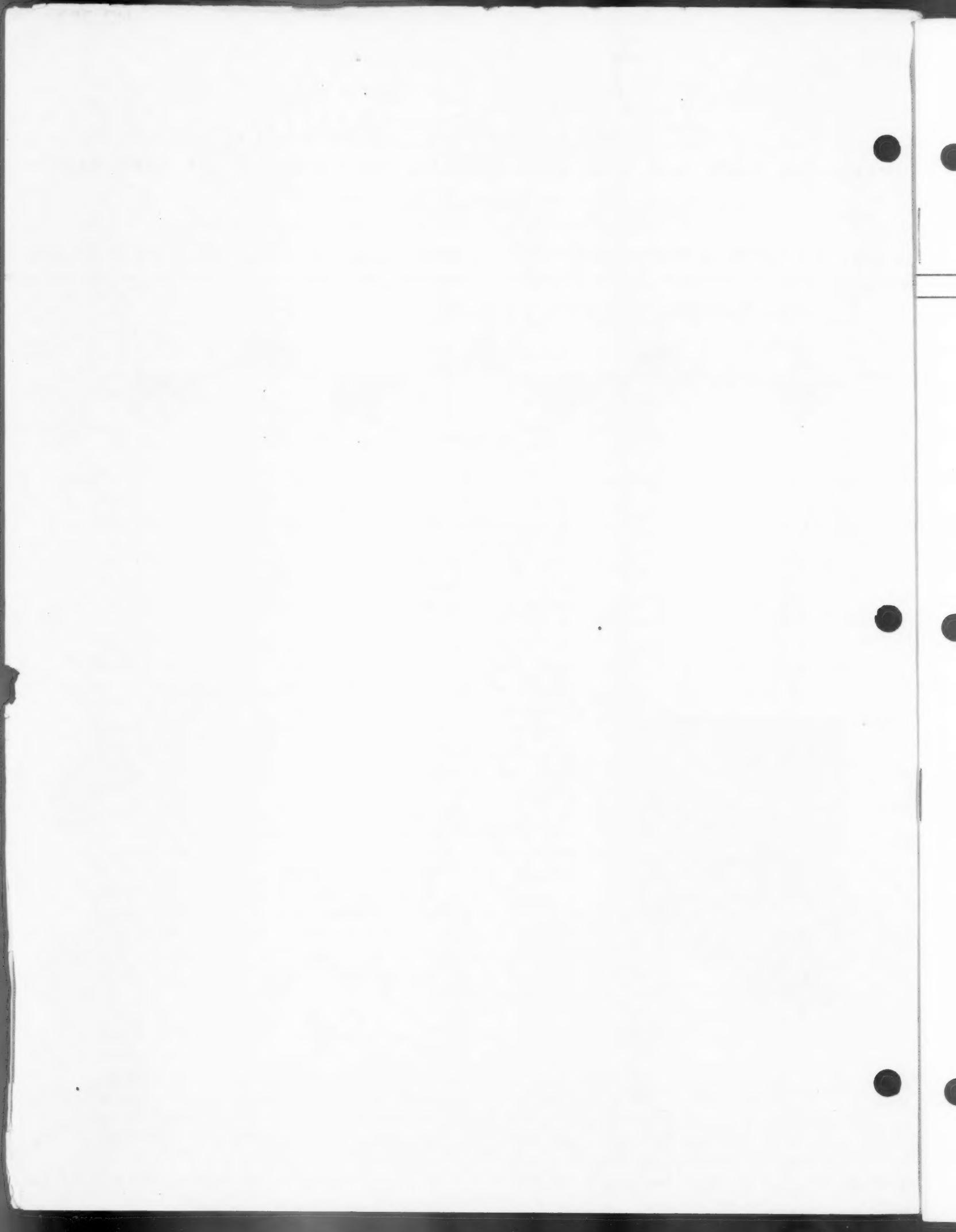
THE chart above shows the fluctuations of urban real estate activity, foreclosures, and rents in the United States from 1875 to the present. The chart to the left is the last four years of the upper chart enlarged to show monthly fluctuations.

The marked improvement in urban real estate is quite apparent from this chart. Real estate activity in 1932 reached a point 66% below normal. It has now recovered to within less than 43% of normal, and the recovery in the past few months has been quite rapid.

The drop in the foreclosure rates has shown the same marked recovery. Foreclosures in August, 1932, reached the record height of 124 on our chart. This has now dropped to a level of 80, a decline of more than one-third. Only those communities where foreclosure records were available continuously over the entire stretch of the long chart above have been used in this chart.

The improvement in residential rents is also quite marked. Our rent index has shown the same upward trend. In December, 1933, it reached its lowest point. Rents actually collected today are about one-third higher than they were at the bottom of the depression (concessions and uncollectible accounts considered).

NO MAN HAS ANY MORAL RIGHT TO SUBSTITUTE OPINION FOR FACTS



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SAINT LOUIS

HOW LONG DO HOUSES LIVE?

HOW long do houses "live"? This is a question of importance to many groups interested in real estate. The appraiser should know, as the real value of a building depends, to a large extent in many cases, on the probable length of its future economic life. The accountant should know so that he can make the proper division between return on, and return of, invested capital. The architect and the builder should know, as, with the population now increasing very slowly in the United States, the larger part of the building in the future will consist of the replacement of present buildings. It is impossible to estimate the amount of building necessary for replacement purposes without knowing something of the probable life of the buildings now standing.

It is, of course, impossible to predict accurately the economic life of any particular building just as it is impossible to forecast how long any one individual may live. Actuarial tables, however, enable life insurance companies to determine years in advance their cash requirements for death claims. "Mortality tables", which will give average life expectancy, can be constructed for buildings. As far as we know, no tables of this sort have ever before been compiled for residential buildings.

When a building is erected, there is always the possibility that it may be destroyed by fire, tornado, earthquake, termites, or other unpredictable forces within a few years of its completion. There is also the possibility that it may be the one building in a hundred which will last many times the average life of buildings of its class and type. The unpredictable possibilities do not affect value. Value depends on probabilities, and the degree of probability can be determined only by studying a large number of cases.

The appraiser is primarily interested in the probable remaining life of a building. The probable - not possible - length of this life should determine the rate of depreciation used.

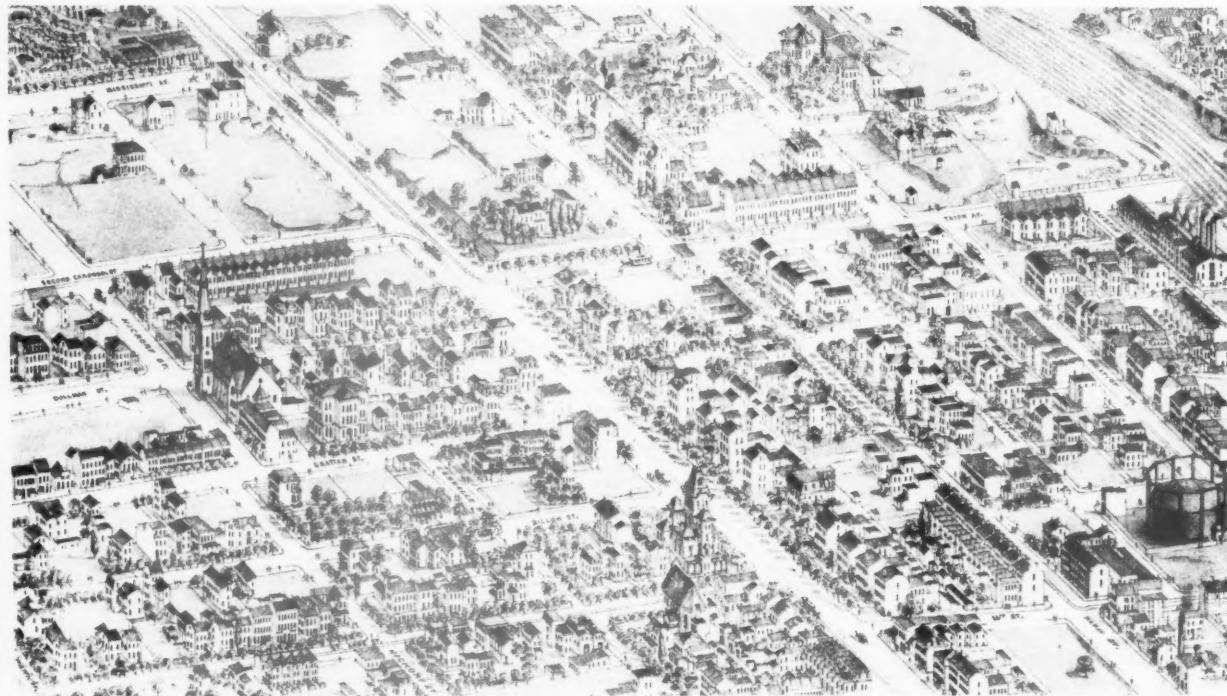
The probable life figures and charts for residential buildings presented in this report were prepared several years ago after considerable basic research work on dwellings built in St. Louis and were reported in *The Real Estate Analyst* at that time. The demand for copies of these studies has exceeded the supply, so the material is being reprinted as a Confidential Bulletin. Twenty residence addresses were selected at random from the building permits for each year from 1879 to 1933, the longest period for which records were available. This resulted in a list of 1100 properties, twenty built fifty-five years ago; twenty, fifty-four years ago;

twenty, fifty-three years ago, etc., down to twenty buildings erected in 1933. Each of these properties was personally inspected and graded on apparent deterioration and obsolescence. If the building for which the permit had been issued was no longer standing, a careful record was made of the present use of the site. The type of construction was noted on all buildings and all were classified as to occupancy.

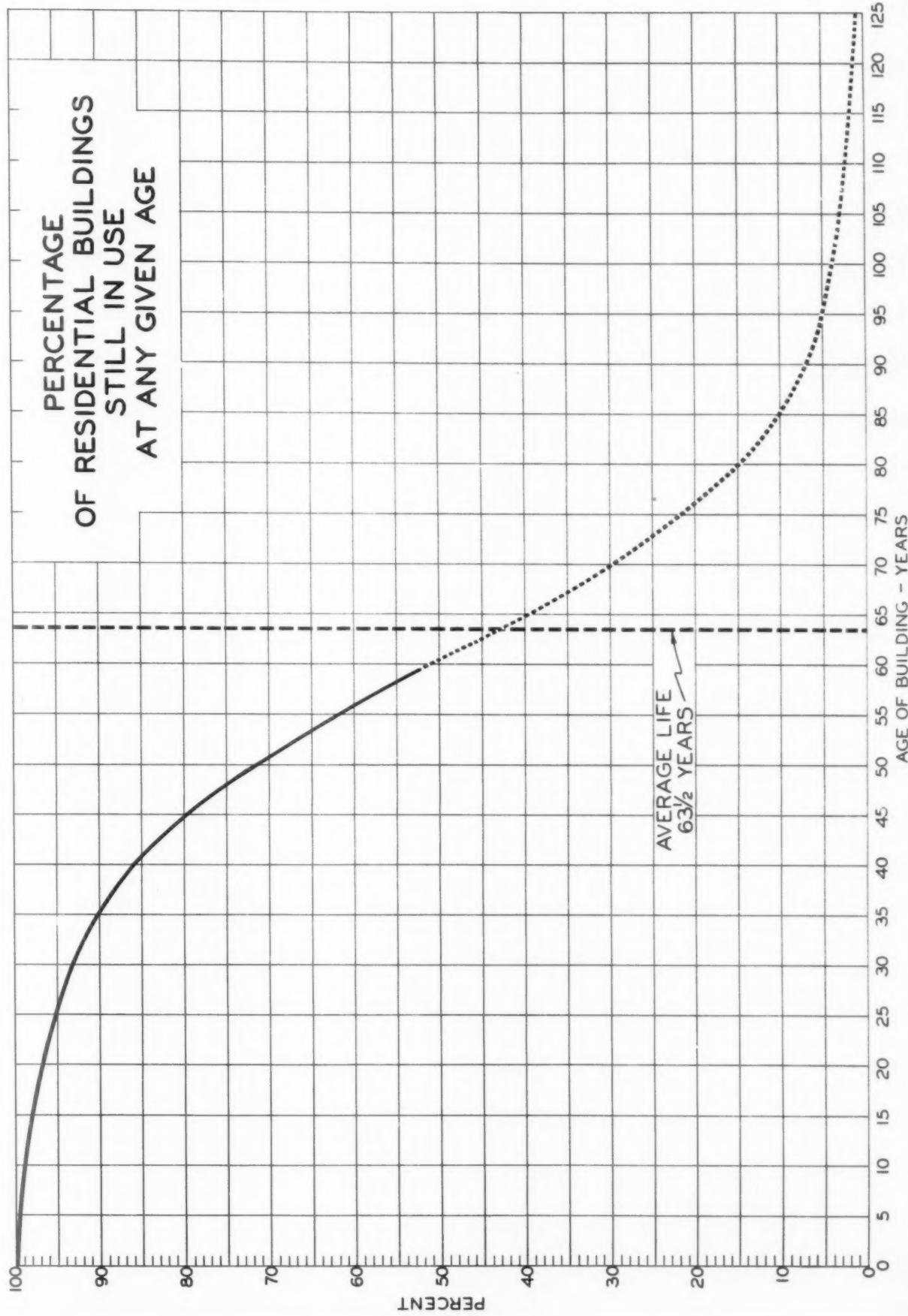
In an effort to carry the study to buildings older than fifty-five years, perspective drawings of six sections of St. Louis, made in 1875 were checked in the field to find out how many of the buildings shown on these drawings are still standing. One of these sections is shown in the small reproduction below. Fifty-five per cent of the buildings shown on this drawing are still standing and occupied. Each of these buildings is now more than sixty-one years old.

Based on the survey of the 1100 building permits and the buildings on the perspective drawings still remaining in use, the chart on the following page was drawn to summarize the findings of this study. This chart shows the number of buildings which can reasonably be expected to still be in service at any given age. As no figures were available for buildings more than fifty-nine years old, the probable shape of the curve for older buildings is shown by the heavier dotted line. All life expectancy studies on items as diverse as human beings, telegraph poles, electric motors and railway car wheels show substantially this same shaped curve. The light dotted line on this chart shows the average life of residential buildings as determined by this study. This has generally been assumed to be fifty years, but our study would indicate that 72% of all residential buildings are still in use fifty years after construction.

The chart on the fifth page shows the remaining life which can probably be expected for an average residential building of any given age. This chart may be a little harder for some to understand. Of course, it



PERCENTAGE
OF RESIDENTIAL BUILDINGS
STILL IN USE
AT ANY GIVEN AGE



is apparent that, since the average life of all residential buildings was found to be sixty-three and a half years, the life expectancy of a new building, built under comparable conditions, would be sixty-three and a half years. If, however, the building in question is now fifty years old, the average expected additional life is twenty-three years in place of thirteen-and a half, as might be supposed. Buildings now sixty-three and a half years old, in place of having an average life expectancy of zero, have a probability of eighteen and a half additional years. This lengthening of the probable life as the building gets older is due to the fact that the "weaklings" have dropped out in the earlier years. The same thing is quite noticeable in human mortality tables. At birth the probable life for a male is slightly more than fifty-five years, but those surviving to fifty-five have an expectancy of about eighteen additional years.

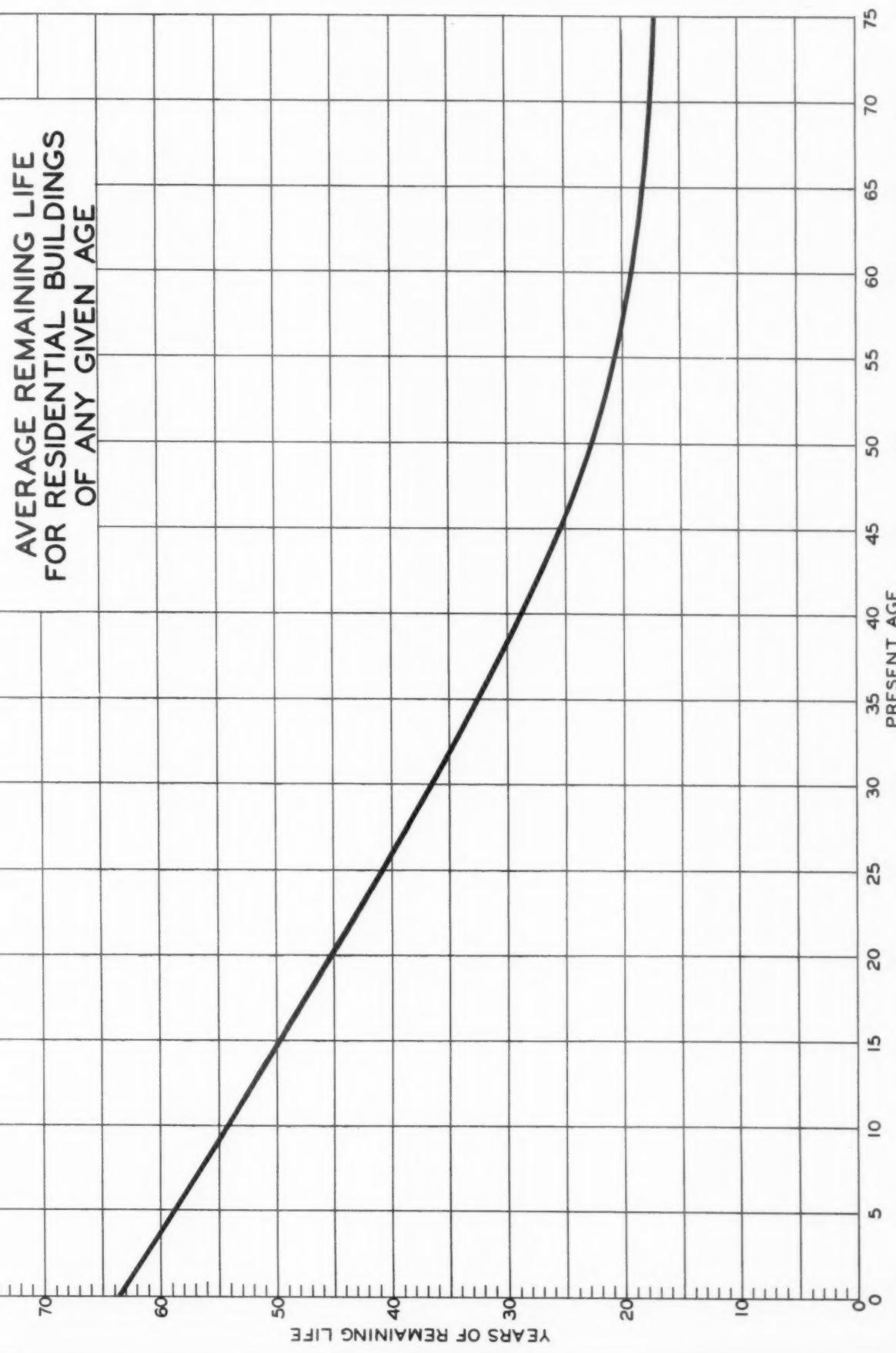
These tables include demolitions of buildings as a result of many different causes, many of them not the result of physical deterioration or obsolescence. The chart on the sixth page shows the percentage distribution of the various causes of demolition. This chart immediately raises the question of whether it is not unfair to depreciate a building on the basis of its remaining life when the figures on which its remaining life is based include demolitions due to fires, tornados, change of use, and condemnation for public use. Presumably when a building is destroyed by either fire or tornado its value is recovered from the insurance company. If it is torn down to make way for a filling station, generally the appreciation of the land has offset the depreciation of the building. If the building has been razed to make way for a school, street, or other public use, the value of the building is recovered from the city. If the destruction of improvements in all cases where the owner is reimbursed for the loss is subtracted in figuring probable life of a building, this life will be much longer than that shown on our charts or that generally used in setting depreciation rates.

Our studies have convinced us that age alone destroys a building very slowly. The one building inspected which impressed us as being depreciated one hundred per cent, but still standing, was built in 1902--just thirty-four years ago. On the other hand, many historic buildings in the East more than one hundred years old show less physical deterioration than many dwellings built during the last twenty years. Rapid physical deterioration is generally due to either poor construction or poor maintenance; rapid obsolescence is generally due to freakish architecture. Mount Vernon's only obsolescence consists in the absence of modern conveniences. These could be installed at relatively slight expense.

DEPRECIATION AND OBSOLESCENCE

THE foregoing portion of this report was confined entirely to those buildings which were no longer standing. It was not concerned with the present condition of surviving buildings. The remainder of this report is primarily interested in the average apparent deterioration and obsolescence observable on those buildings still in use.

AVERAGE REMAINING LIFE
FOR RESIDENTIAL BUILDINGS
OF ANY GIVEN AGE



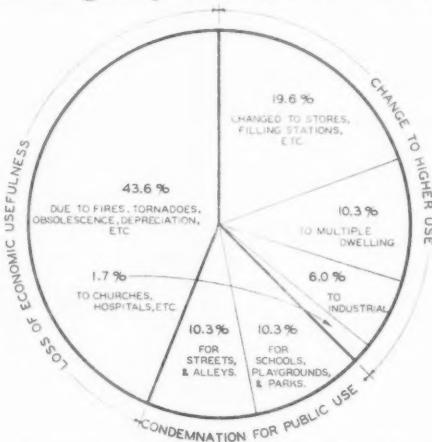
It must be borne in mind in studying the first and second sections of this report that certain fundamental differences exist in the field inspections on which our conclusions are based. The first part estimating the probable life of a building was based only on the percentage of actual demolitions. There was no judgment necessary in the field work. Either the building in question was still standing or it had been demolished. The inspection of other investigators of these same addresses should yield the same results. On the other hand, the estimation of the amount of deterioration and obsolescence on an existing building is a matter of judgment. It is quite conceivable that other investigators inspecting the buildings a second time would get slightly different results. In order to minimize this, more than three-fourths of the buildings were inspected by two men and their gradings averaged.

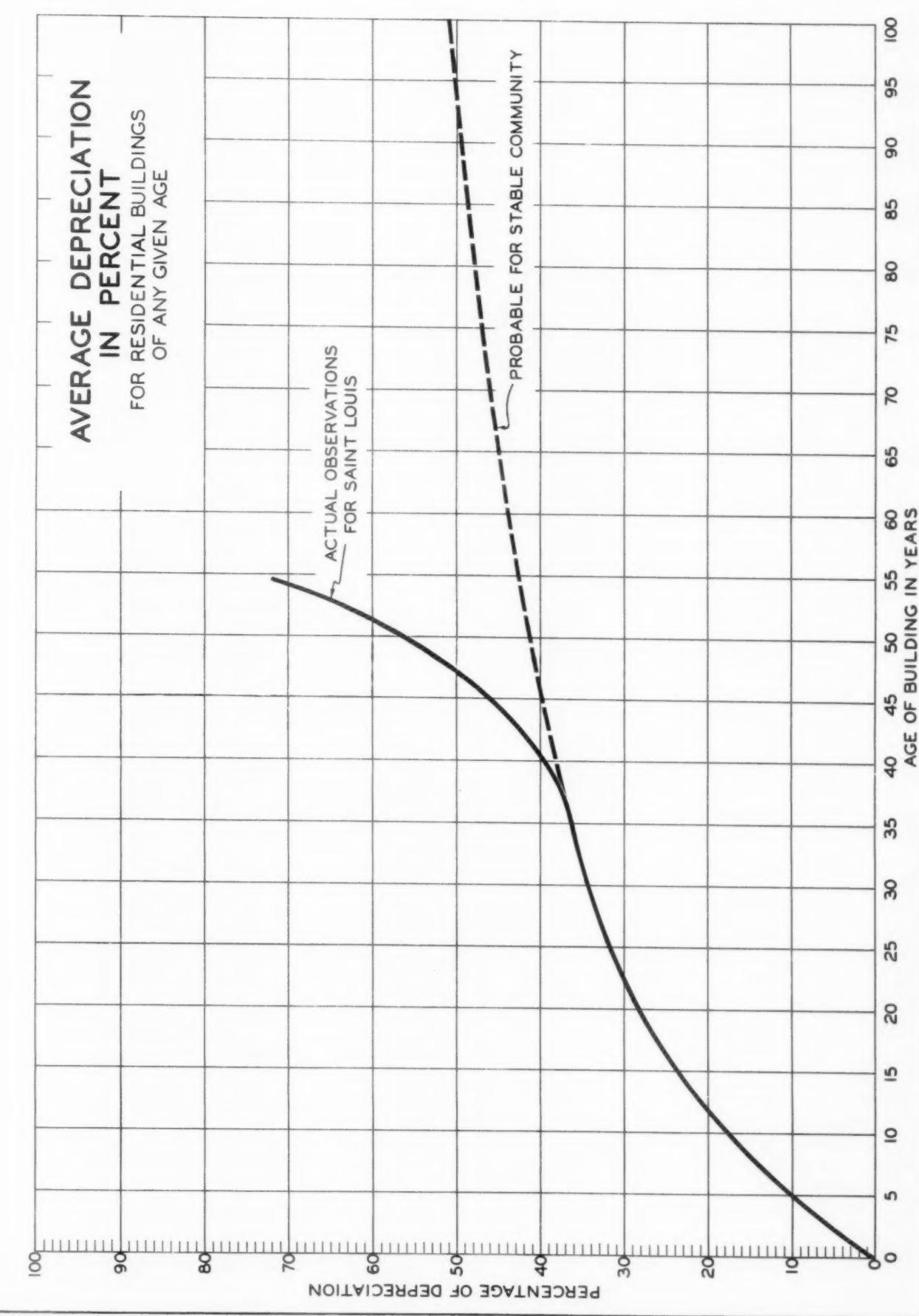
In a strict sense, physical deterioration is complete only when the house has either tumbled down or is in imminent danger of doing so. It is very difficult, however, to estimate for any building its distance to complete destruction. Deterioration, obsolescence, and neighborhood are combined in influencing the value of the property. Many an unoccupied building considered totally obsolete and depreciated, could be rehabilitated and modernized if it were in a neighborhood which could provide sufficient rentals for an acceptable building in good shape.

We are inclined to think, after considerable study of our gradings, that we have not succeeded in isolating physical deterioration from obsolescence and neighborhood. However, it is undoubtedly true that, when, because of the condition of the property or the neighborhood, its income producing capacities are greatly lessened, deterioration is greatly accelerated by neglect of adequate maintenance.

The chart on the following page shows the final results of our study of depreciation. The solid line shows the percentages obtained by averaging the apparent depreciation of all properties in the same age grouping. To find the average percentage of depreciation from this chart for a building of any given age in the group of eleven hundred studied, find the age at the bottom of the chart and read the percentage from the scale at the left.

The depreciation curve secured in this study is not the shape we expected. We thought that the curve would be somewhat similar in shape to the one charting the percentage of buildings still in use at any given age. That curve declined slowly at first, rapidly during the middle period, and then very slowly in the later ages. This curve is just the opposite, changing rapidly at first, slowly during the middle period, and rapidly at the end. The rapid rate of apparent deterioration during the first twenty years of the life of a building seems quite reasonable after a little thought. Structural defects make their appearance; shrinkage of lumber and





settling produce cracks; floors and millwork become marred. However, after the newness is worn off of a house it enters a period when the apparent deterioration changes very little. While there is considerable difference in the apparent deterioration of the average new house and the average one five years old, the difference between an average house twenty years old and one twenty-five years old is hardly perceptible.

The second surprise we received in this study is the rapid increase in the rate of deterioration of older buildings. We believe that this increase is the result of neglect rather than of actual inevitable deterioration. The older buildings in any metropolitan city are in districts which have lost their desirability. They are quite frequently occupied by colored tenants or by foreigners. The economic value of these buildings has fallen to the point where it is no longer profitable to keep them in first class repair. Accordingly, they become dilapidated, and the rate of deterioration is greatly accelerated. We have indicated on the chart by the dashed line the rate of deterioration we believe possible in a stable community where the older sections of the city are not becoming "blighted areas". This percentage would probably apply to many suburban communities, some of the smaller Eastern cities, and, with some modification, to buildings in Europe, where a continued occupancy of one hundred years or more is the rule rather than the exception.

This study has convinced us that the greatest threat to the value of a residence is neither deterioration nor obsolescence, but the changing character of the neighborhood. As long as the neighborhood will support buildings which are well maintained, depreciation can be reduced to an almost negligible factor. We have inspected many buildings more than fifty or sixty years old which we believe had a physical deterioration of not over twenty per cent. We have inspected other buildings which have not been maintained, which seemed seventy per cent depreciated at from ten to fifteen years in age.

We believe that our separate grading on obsolescence is of little value. A detailed study of these gradings has shown that, if obsolescence due to extreme faddishness be omitted, the remainder of the grades are roughly proportional to the ages of the buildings. Freakish architecture becomes obsolete far faster than do conservative styles. A well-designed colonial dwelling, for example, becomes obsolete only insofar as its sanitary, electrical, and mechanical equipment suffer in comparison with the total value of the investment. Our studies of these thousand-odd buildings of all ages has convinced us that fifteen or twenty years from now the so-called English bungalow type of brick residence with its stone encrusted corners and chimneys, its art glass designs in the front windows, and its impossible peaked roofs, will be more obsolete in appearance than the worst atrocities of the "gay nineties". Epidemics of freak architecture seem to break out from time to time and run their devastating course, but sooner or later the inherent common sense of the general public swings back from garish decorations to good planning and utility as the essentials for a home.



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THE QUALIFICATIONS OF A REAL ESTATE MAN

I was recently asked by a group of real estate men what I considered the essential qualifications for success in the real estate business.

Upon giving the matter some thought, it seems to me that many of the characteristics of the successful real estate man are characteristics which would have made the same individual successful in almost any other line of business. I wonder if this is not generally true and if those who succeed in one line could not probably have reached equal success in many other lines, and if those who fail and who blame their choice of an occupation for their failure are not offering excuses which are not justified by facts.

I believe that the characteristics which are most essential to success in the real estate field are:

1. Facts - In any line of business, but particularly in the real estate field, it is necessary for the successful individual to accumulate exhaustive knowledge of many details, listings, sales and lease information on thousands of properties, intimate knowledge of the detailed needs of thousands of prospects, knowledge of zoning restrictions, deed restrictions, transportation lines, pedestrian traffic, architecture, construction practice, building materials, operating costs, financing costs, etc. Much of this information can be learned only through expensive experience.

In addition it is necessary that he have a detailed knowledge of economic cycles and trends as they affect vacancy, foreclosures, rents, and values. The Real Estate Analyst is endeavoring to furnish this background to its clients.

2. Judgment - Facts alone are not sufficient. We have all known many people who have been immersed in facts but who lacked the ability to see their implications in the problems they were trying to solve. The statement that a man's judgment can be no better than his information is true, but it is equally true that quite frequently a man's judgment is not so good as his information.

3. Vision - Although real estate is the most tangible of all things in its physical nature, it is among the most intangible in the essential essence to which its value clings. The physical composition of a square foot of ground on Manhattan Island and in certain sections of Arizona is almost comparable. Both arose through the disintegration of certain types

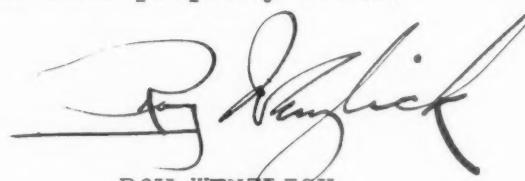
of rock, but the relative value of these areas cannot be determined by a chemical analysis of the soil. It depends primarily on the accessibility to a large number of potential spenders. This accessibility is not merely a matter of distance, of ease of access, nor of physical obstacles. Quite frequently it depends primarily on intangible reactions. Two pieces of property only fifty feet apart may vary tremendously in value because habit forces far more shoppers past the one than the other.

Since value depends entirely upon the future and has nothing to do with the past,* only a man who has the vision to see the possibilities of a particular piece of ground can become a successful operator. When those possibilities are apparent to all, its value has already risen to the point where comparatively little profit can still be made.

4. Energy - A man cannot become successful in any field without hard work. I recall twenty-odd years ago hearing Champ Clark, at that time Speaker of the House of Representatives, use this illustration: "Fame has often gone to the farm and taken the farmer from his plow; it has gone into the office and taken the clerk from his desk; it has gone into the workshop and taken the mechanic from his bench; but it has never yet reached over a picket fence and grabbed a dude out of a hammock."

5. Enthusiasm - In my opinion nothing is bought but all things are sold. With the exception of the basic instincts, all desires are created by influences brought to bear on the individual from without. We have been "sold" our religious beliefs, our political theories, our ideas of fashions in clothes and fashions in thoughts. Men and women do not buy as the result of careful calculation nor because of a logical presentation of facts. They buy because they have been made to desire the object being sold more than they do the money involved in its cost. Practically all buyers decide on the basis of their emotions, then eagerly, though unconsciously, help the salesman to present the facts which will justify in their own eyes the purchase they desire to make.

6. Character - The purchase of a piece of real estate is for many people the largest single investment of their lives. An individual will buy standard packaged items of known quality from almost any source. The purchase of real estate, however, with each piece different in some characteristic from every other piece, demanding judgment as to value, involving technicalities in its transfer, and necessitating the signing of mortgages for large amounts, requires implicit confidence in the person primarily responsible for the sale. A reputation for honest and intelligent dealing is essential to continued success in the real property field.



ROY WENZLICK

*Value: "The present worth of all the rights to future benefits arising from ownership."--American Institute of Real Estate Appraisers.

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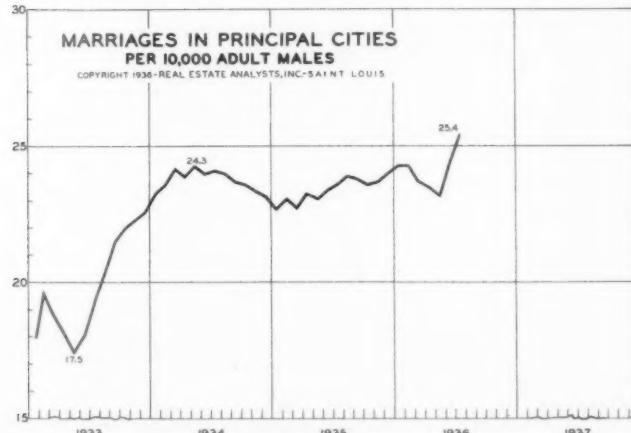
SAINT LOUIS

THE EXPANSION OF DEMAND FOR RESIDENTIAL UNITS

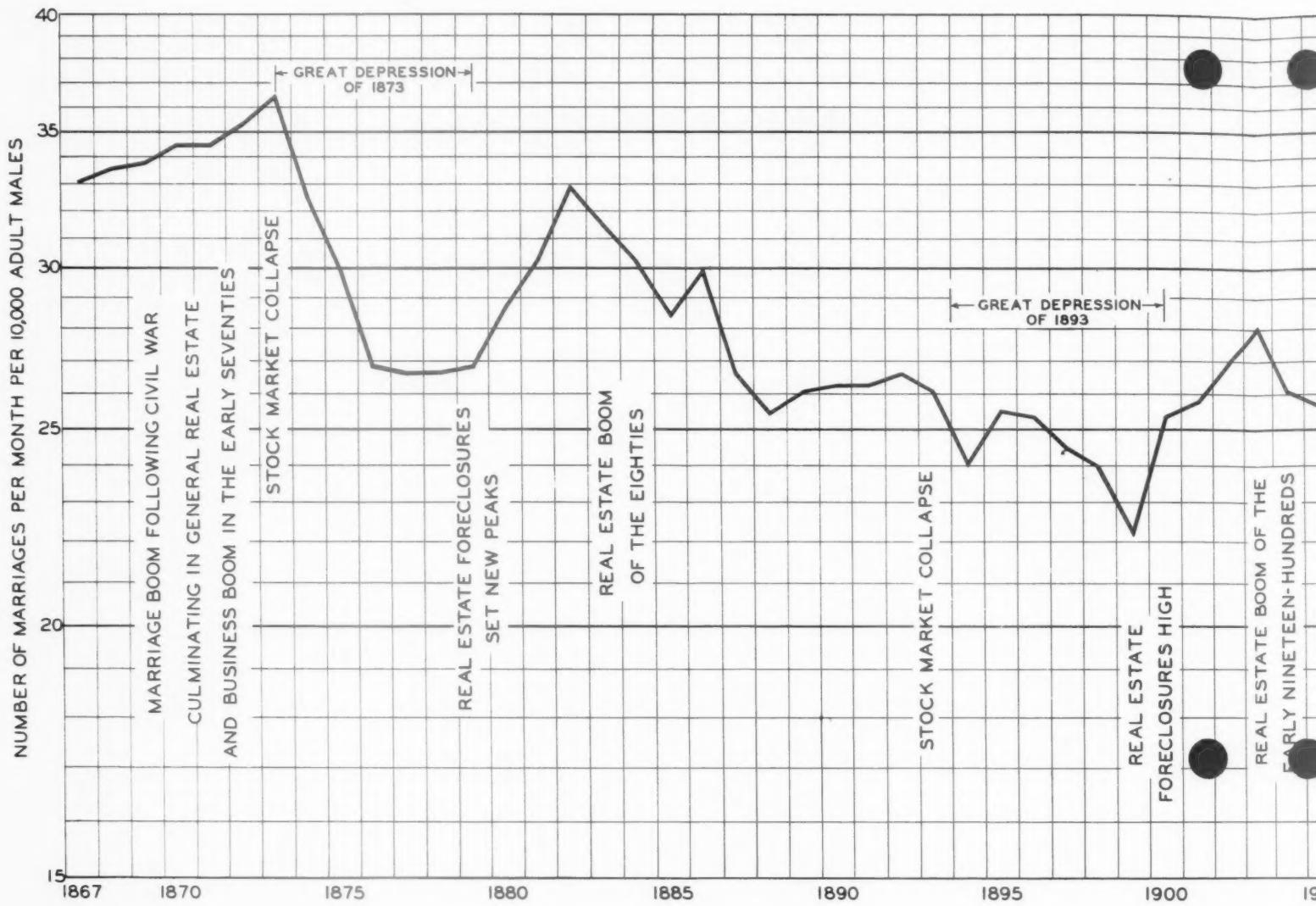
THE demand for space is elastic. In periods of prosperity it expands and in periods of depression it contracts. One hundred thousand individuals will occupy far fewer separate housing units in periods of depression than they will in periods of prosperity. One thousand commercial concerns will occupy fewer square feet of office space in periods of depression than they will during periods of great industrial activity. While these truths are self-evident, it is rather remarkable how seldom they have been recognized during this depression. In the period following the stock market collapse, vacancy of all types of space increased rapidly, and the newspapers and magazines were filled with editorials on the iniquities of the preceding building boom which had overbuilt our cities. You will search through these articles in vain for any explanation which places the blame where it really belongs--on the contraction of demand.

According to the figures of the National Association of Building Owners and Managers, the percentage of vacancy in office building space in 45 cities showed relatively little increase prior to 1929. In 1929 this figure averaged less than 13%. During the next two years, however, vacancy climbed rapidly until in 1934 it approximated 27%, but during the period from 1929 to 1934 very little new office space was built.

Residential vacancy figures on 76 cities show substantially the same results. Residential vacancy did not increase prior to the stock market collapse; then it sky-rocketed, reaching new heights at the time of the bank collapse. At the time of the stock market collapse new residential building in the United States was already 50% below normal, and within the next year it dropped to microscopic levels. Clearly the rapid increase in vacancy during this period was not due primarily to overbuilding but was due to the contraction of space requirements caused by the movement from the cities to the farms, the doubling up of families due to unemployment and economic distress, and the retardation of the marriage rate.



During every great depression the trend from the farm to the city has been reversed, and for a while people believe that this depression phenomenon represents a permanent reversal of the trend. In all other great depressions, however, as



unemployment in the cities decreased, the trend again reversed itself with the movement back to the cities. During the initial period of recovery the net movement to the cities was quite rapid, representing largely a return of many of those forced out in the preceding years. The trend from the cities to the farms in this depression reached its peak in 1932. By 1933, however, the movement was already back to the cities, and that movement will continue in the period ahead.

In every depression the unemployed and those whose incomes are seriously contracted find it necessary to give up separate living quarters and to move in with relatives or friends. At the same time the young persons in the family who normally would marry find the lack of economic security too great an obstacle to overcome.

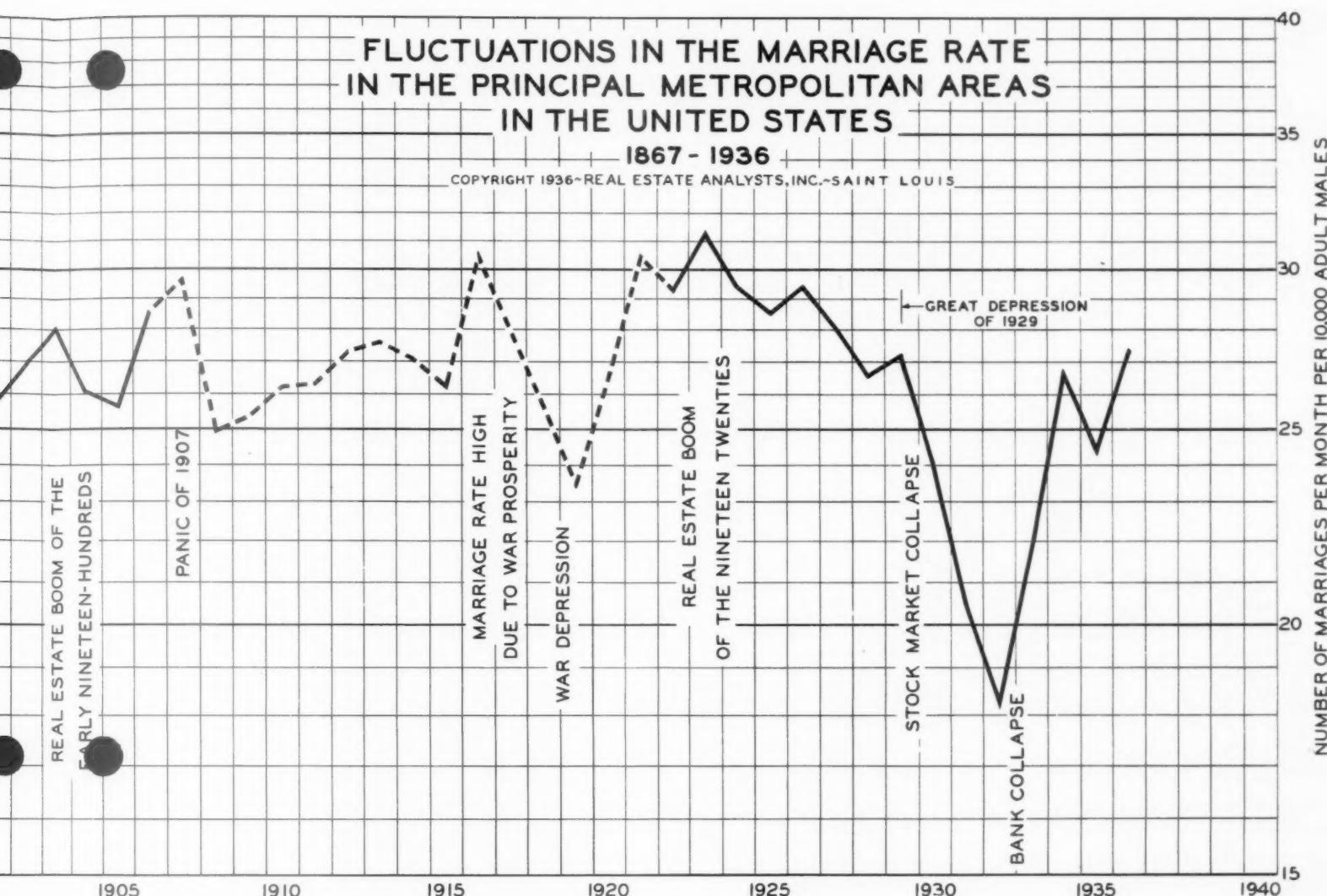
On the chart at the bottom of the first page we have shown the fluctuations in the marriage rate for the principal cities of the United States from 1933 to the present. It will be noticed that the marriage rate is now at a new depression high, although it is still considerably below the levels which we anticipate for the next few years.

In order to understand thoroughly the importance of the

FLUCTUATIONS IN THE MARRIAGE RATE IN THE PRINCIPAL METROPOLITAN AREAS IN THE UNITED STATES

1867 - 1936

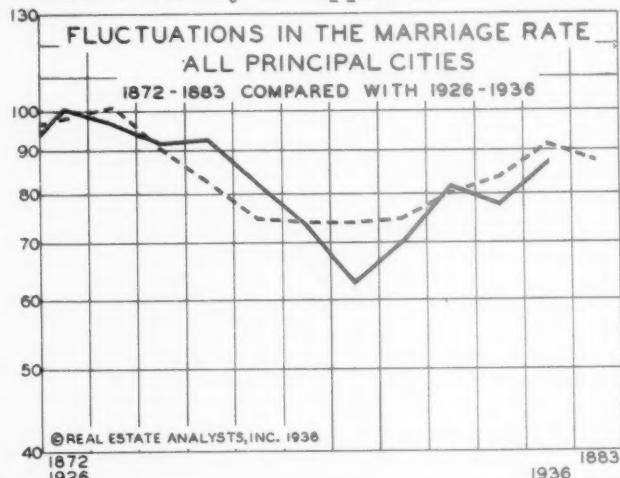
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variations in the marriage rate it is essential to realize that the dissolution of marriage through either death or divorce proceeds at a far more even rate regardless of booms or depressions. Marriages dissolved by death vary practically not at all with business conditions. On the other hand, the divorce rate decreases slightly in depression periods.

In periods of great prosperity the marriage rate exceeds the dissolution rate by a very sizable percentage. In periods of depression the dissolution rate exceeds the marriage rate by a large percentage. This means that during the periods of depression the number of separate family units is being decreased by death and divorce faster than it is being increased by new marriages, resulting in a net shrinkage in the number of separate family units. If these changes were slight, they would affect residential vacancy to only a very small degree; but when it is realized that in a depression like the present the marriage rate in many cities dropped to half of its accustomed height, while the dissolution rate remained practically stable, it can readily be seen that in a period of a few years' time the number of families has shrunk materially. As the depression is mitigated, however, and many of these delayed marriages take place, for a period of several years the number of separate family units will increase quite rapidly as new marriages are exceeding dissolutions.

This is the position we are now in, with considerable further acceleration in our marriage rate expected as unemployment with its retarding influences slowly disappears.

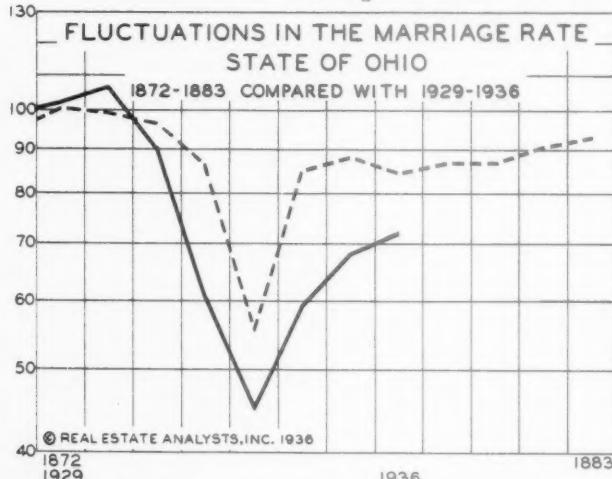


the interim.

The long chart on the second and third pages shows the fluctuations in the marriage rate in all principal metropolitan areas on an annual basis from 1867 to the present. The dotted portion of this chart is an approximation of national figures. No national accumulations of marriage figures have been made for the period from 1907 to 1922, with the single exception of the year 1916. We have accumulated, however, figures from 70 or 80 counties, and on the basis of this material we have approximated the fluctuations during

The striking thing about this chart to us is the very big drops in the marriage rate starting in 1873 and 1929. To make these more striking we have superimposed them in the small chart above. It will be noticed on this chart that the drop during the big depression of the Seventies, while not quite so severe as the drop during the present depression, approximated it in intensity. On the chart at the bottom of this page we show the same figures for all counties in the State of Ohio. It will be noticed that in the Ohio figures the valley is much sharper. This, we believe, is because of the fact that these figures included rural as well as urban counties. Since the farm prosperity cycle is slightly different from the city prosperity cycle, we would naturally expect some difference in figures which included rural territory.

There is no question of the fact that we have started to make up



the shortage of marriages we have accumulated during the depression. However, this shortage has been so great that it will take many years of a marriage rate much above normal to restore the normal balance of married to single in our population. We have pointed out in numerous reports the significance of the accumulated shortage of marriages in this depression and the rapid absorption of vacancy which would come with the increases in the marriage rate. The first issue of The Real Estate Analyst carried a chart on the marriage rate as one of the significant things to watch during depressions and recoveries.

In June, 1932, we forecast that a rapid rise in the marriage rate would eventually come and that a "marriage boom" would be coincident with the real estate boom. The present rise in the marriage rate is of real significance to the owners of property.

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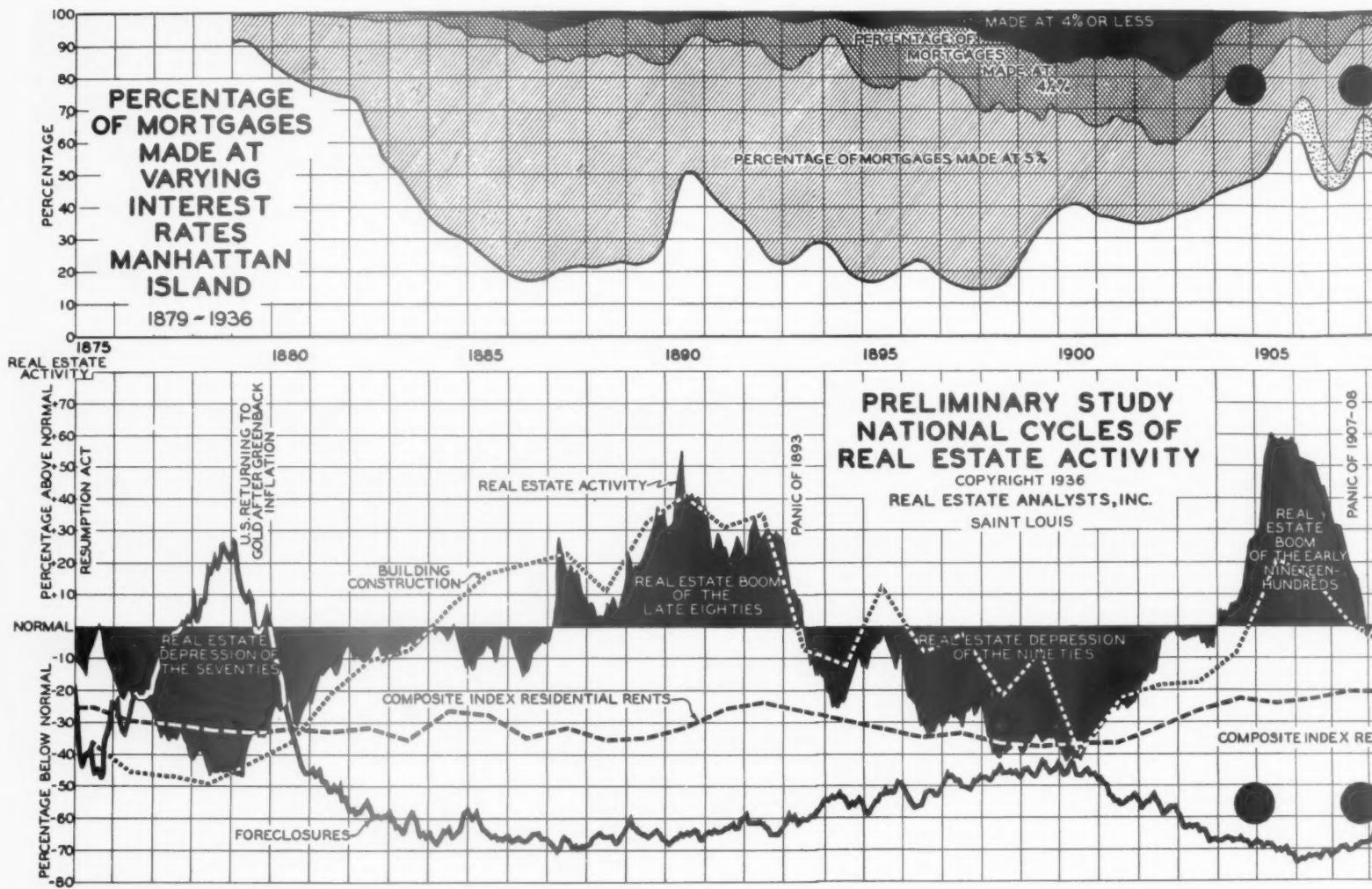
THE FUTURE OF INTEREST RATES

MANY of our clients are vitally interested in the future of interest rates on real estate mortgages. We believe that if we are to estimate future interest trends it is wise first to measure trends in the past. It will be possible from a measured study of this past experience to determine those factors which have apparently been most important in controlling interest rates. Many of those factors are present today and can be forecast with reasonable accuracy for the next few years. The final question becomes, then, the influence of the new factors in modifying those trends which would otherwise normally be expressed.

In an effort to reconstruct the past experience on interest rates we have gone to the records and have examined the interest rates carried on all real estate mortgages each quarter made on Manhattan Island from 1879 to the present. All mortgage extensions, consolidations, and agreements were eliminated, but purchase money mortgages were retained in the final tabulation. We realize that the inclusion of purchase money mortgages in a period like the present increases the percentage of mortgages made at lower rates of interest, as it is quite apparent from our figures that during the past few years a large number of mortgage institutions, in order to dispose of property they consider undesirable, have been selling properties with a heavy purchase money mortgage at a rate of interest much below the rate they would accept on a new loan. This was also true to some extent in the early nineteen hundreds when property accumulated during the big depression of the nineties was being liquidated.

The chart on the back page shows the average interest rate on all mortgage loans made on properties on Manhattan Island from 1879 to 1936. This rate is contrasted with the dollar volume of new mortgages recorded on Manhattan Island.

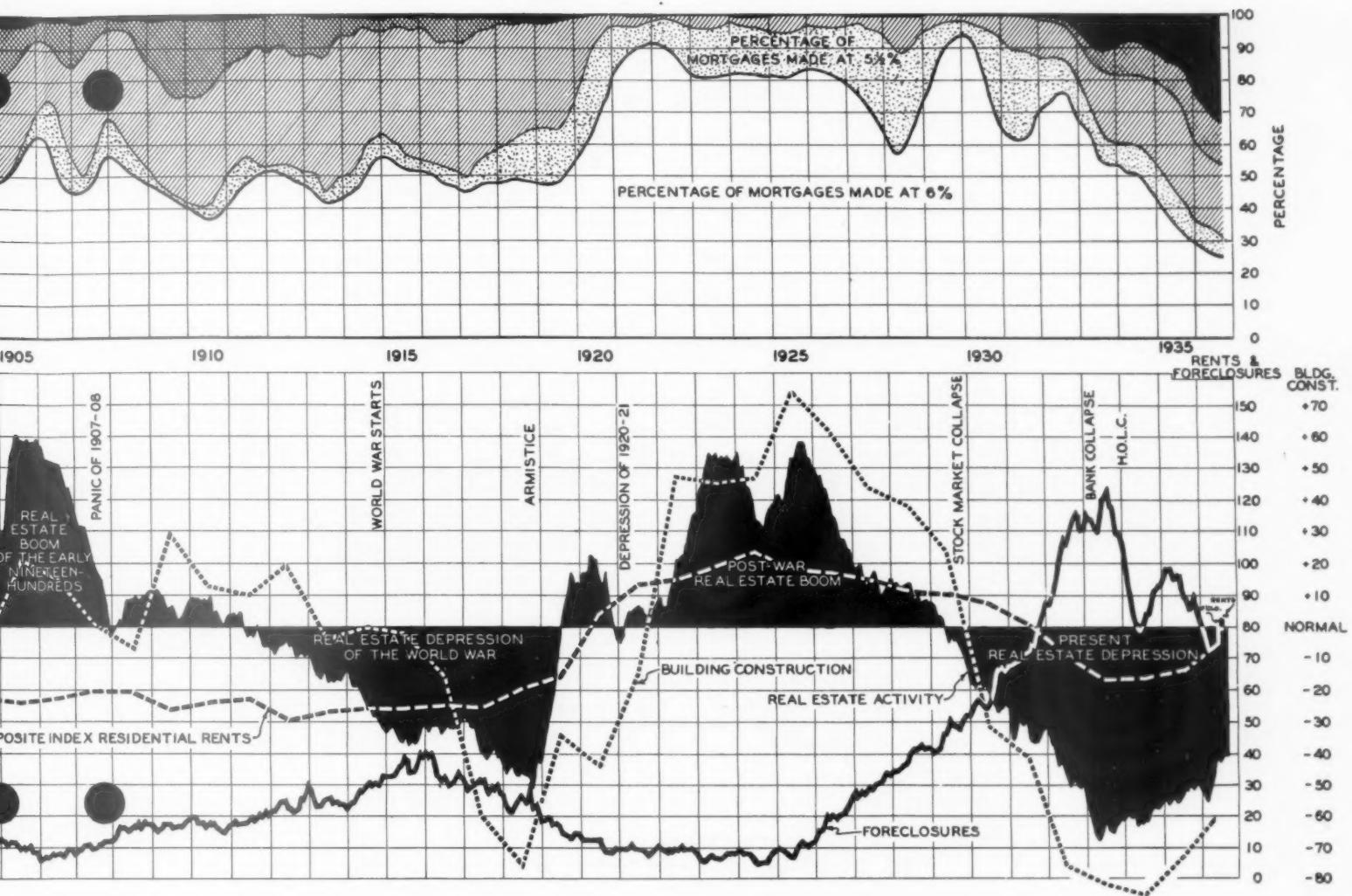
A close inspection finds a number of interesting similarities. From 1885 to 1890 interest rates were recovering from the rapid drops of the early eighties. The rise in interest rates was particularly rapid during the latter part of this period. This increase in interest rates was undoubtedly caused, at least to some degree, by the rapid rise in mortgage volume at that time, as shown on the lower chart. Interest rates again hit a very low spot in 1898, recovering to a temporary peak in 1900. This seems a logical result of the increasing mortgage volume from 1897 to 1899. Interest rates then went to a very decided peak in 1906, accompanying a tremendous increase in mortgage financing from 1900 to 1905. In 1918 the dollar volume of mortgages set a new low, from which it bounded to a new all-time high in 1925. This was accompanied by a rapid rise in the average interest rate. From 1929 on, the general trend in interest rates has been down, as has been the trend in the volume of new mortgage financing.



Financial panics seem to have a tendency to drive up interest rates temporarily. This is quite apparent in the panics of 1893, 1907, and 1929.

There can be no question of the fact that the volume of new mortgage financing will increase rapidly during the next five years, simulating to some degree the rapid rise from 1918 to 1925. Will this rapid rise result in a marked upturn in the average interest rate? If it doesn't, it will be the first time over the entire period of our study that rising volume did not result in an increase in the rate of interest, as can be seen from the chart on the last page. We believe that the government cannot prevent this rise.

Another more interesting charting of these same figures shows on the long chart separate percentages for mortgages made at each different rate of interest. There are a number of interesting things shown by this long chart. First is the fact that in the big depression of the nineties a smaller percentage of the mortgage loans was made at 6% than has been made at that figure during the present depression. Second, undoubtedly a portion of the black area in the depression of the nineties (mortgages made at 4% or less) and the present depression is due to purchase money mortgages. In the relatively near future the percentage of loans made at 4% or less will decrease just as it did as we went into the active real

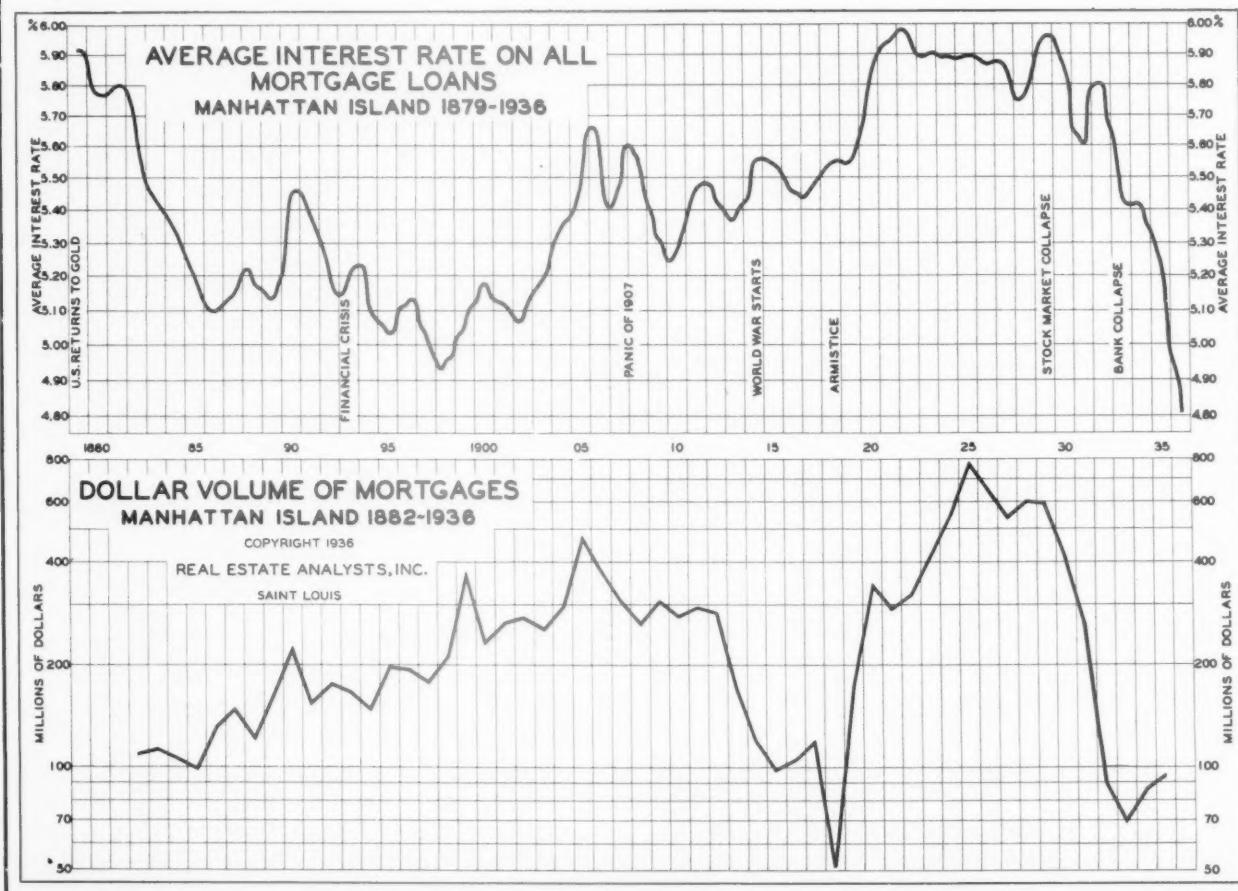


estate market in the early nineteen hundreds. Some general conclusions we have reached as a result of this study are as follows:

Interest rates are the result of the supply of and demand for money available for real estate financing. Increased earnings of real estate would make real estate more desirable as security for loans, having a tendency to increase the supply of mortgage money attracted to this field. On the other hand, an increase in rents and prices would increase the amount of mortgage money necessary, as eventually properties would carry mortgages proportional to their new values. All other things being equal, if real estate prices in the United States were to double, the demand for mortgage money within a period of from five to seven years would much more than double, due not only to the necessity of financing these properties at the new price levels but also to the financing of the large volume of new construction which would inevitably result. It seems to us that the increase in real estate rents and values will far more than offset in its demand for increased mortgage money the increase in mortgage money which would naturally flow to real estate because of its better earning position. This will be particularly true because of the fact that, at the time when real estate is increasing in price, industry, due to greater industrial production, will be back in the active borrowing field. These factors lead us to believe that the general trend of interest rates in the next five years will be up.

What is the effect of interest rates on rents and values? We believe that a low interest rate will tend to lower rents. The reason for this is, of course, that, as it becomes possible to build new buildings which will rent for a sufficient amount to pay a return on the investment at the lower interest rate, these buildings will offer direct competition to buildings built and financed with higher rate money. An increase in the interest rate will tend to increase rents by making it unprofitable to build until rents have advanced to the point where they will apparently show a return on the investment at the higher interest rate.

Over a long period of years we believe that the fluctuations of interest rates do not have a great effect on real estate values even though they do have this effect on rents. If we go into a market with interest rates much higher than their present level, these higher interest rates will not be limited to real estate mortgages but will be extended gradually to all types of loans. This will bring about a change in the capitalization rate at which all types of investments are figured. If a \$25 annual yield at the present time is considered an adequate return on a very conservative \$1000 bond; then if interest rates should double, \$50 will be the normal adequate rate on a conservative bond. As this change takes place, capitalization rates on all types of investments will gradually tend to change in the same direction so that doubling the rate in a market where very much higher interest rates prevail will not succeed in doubling the value, just as a \$50 income in a high interest period represents no greater amount of principal than does \$25 in a lower interest period.





NO. 372



Factual Selling

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WE ARE OUT OF THE GREAT BUSINESS DEPRESSION

SINCE the bank collapse of 1933, business has been gradually recovering. The progress has been so gradual that many of us are not sharply aware of the degree of improvement. The national income has increased from thirty-nine and a half billion dollars in 1932 to an estimated sixty billion dollars this year. The sum total of all check transactions in the United States is now running 44.2% above the 1933 low. Department store sales in all principal cities have advanced in the last three years by 24.6%, and the stock market at the time we go to press is 191% above its depression low. The daily papers contain numerous accounts of salary increases and extra dividends declared by large manufacturers. While undoubtedly many of these dividends or bonuses are being declared at the present time because of the tax on undistributed earnings, there can be no question of the fact that the earning records of practically all large concerns have advanced very definitely during the last year and a half.

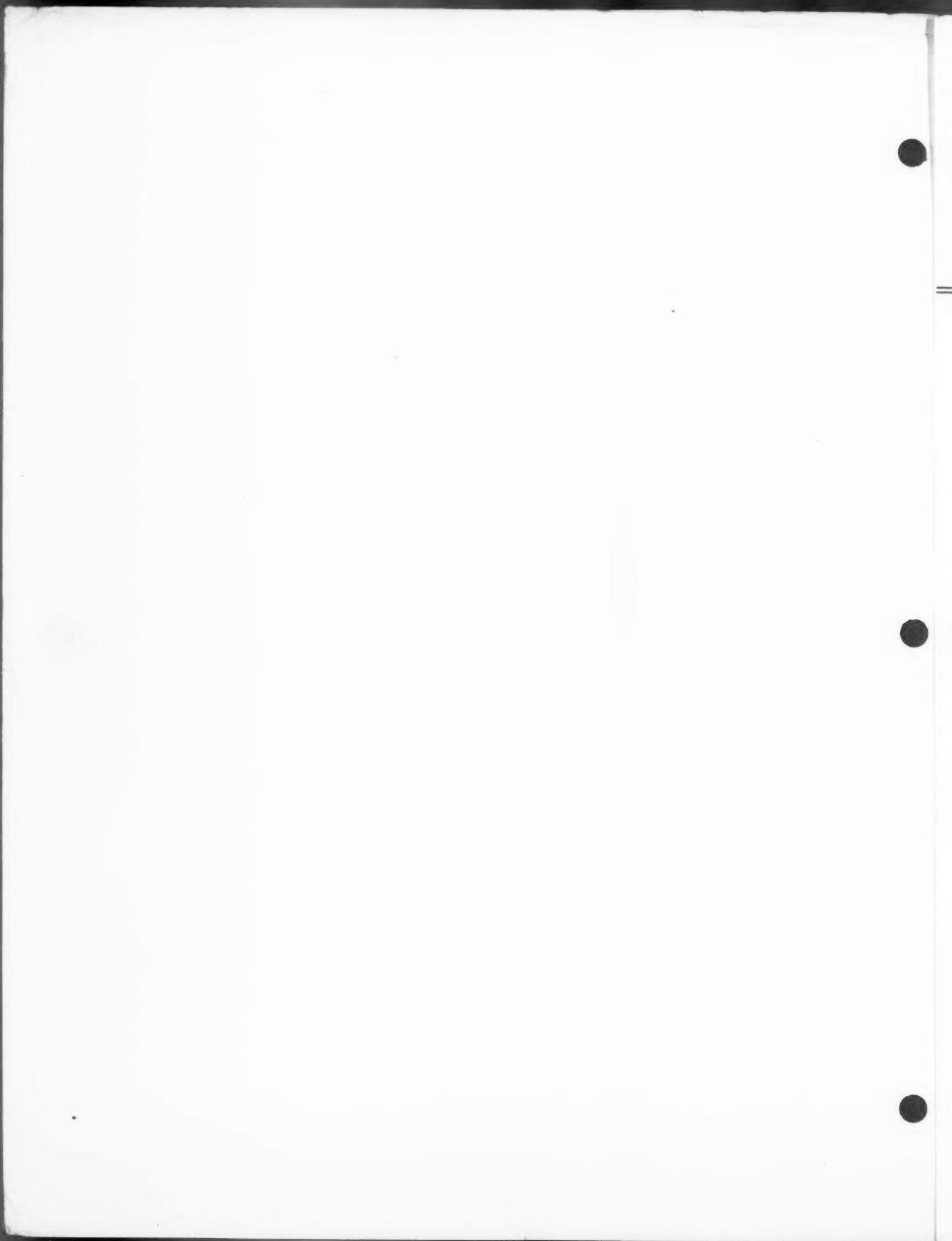
This upward trend will continue for a period of years. There is nothing in the present picture which would indicate that we have reached either a plateau or a peak. The industries which manufacture machinery, railroad equipment, building materials, and other capital goods have been the laggards in the recovery. They are now getting under way; and as they do, their increases will be pyramided on top of the increases we have already witnessed in the consumer goods field.

Real estate has not yet felt much of the effect of this improvement. Our records, extending back month by month to 1850, would show that the improvement in real estate following each great depression of the past has been slow. Wholesale prices have always increased first in any recovery, followed later by retail prices and the cost of living. Still later, rents and values start increasing, but the significant factor in the succession is that this sequence has always occurred in the past. We have already experienced a large increase in wholesale prices since 1933. Retail prices and the cost of living have not advanced by as great a percentage, but these prices are now showing considerable buoyancy. Rents have just started their upward climb, accompanied by a slight increase in real estate values; as values in the last analysis depend on earnings.

Rents never advance in any community until the demand for space has absorbed a large percentage of the vacant space available. When it becomes difficult to find suitable vacancies, the demand forces up rents until they reach the point where it is apparently as cheap to build as it is to buy. As soon as we reach this point, the real building boom starts. Most cities have not reached it yet, and many cities will not reach it next year. We are inclined to think that the real building boom will start in 1938. Real estate can still be bought at a bargain for the long pull.

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THE EFFECT OF THE ELECTION ON REAL ESTATE

THE true scientist performs his experiment with no interest whatever in the result. He is interested in measuring only the intensity of the various factors and then arriving at theories, more or less tentative, which will account for the results produced. The true economist is not interested in political opinions or propaganda but attempts solely to measure the economic effects of political events. While it is still too early to form final opinions on the results of the election, the following suggests itself to us as likely. These opinions are tentative and will be revised as indications during the next few months furnish a more factual basis from which to forecast.

President Roosevelt was elected four years ago on a conservative platform. His re-election is on his record, which has not been conservative. The sweeping nature of his victory can be taken by the President and Congress only as a mandate to continue in the course he has pursued during the past few years. This he, or any other man under similar circumstances, would do. The NRA, enactments for minimum hours and minimum wages, the AAA, efforts at a planned economy, all will certainly be revived and aggressively pushed in some form. We think it probable that the Constitution in the course of time will be amended; and as death takes its toll of the Supreme Court, it will be liberalized. The fact must be faced that the United States has definitely swung to the left. The Republican party during the next four years must also swing to the left if it hopes to compete for popular favor in 1940. The Literary Digest Poll is honest and is undoubtedly an indication that Roosevelt's greatest support came from groups not on the mailing list for that poll. However, there can be no question of the fact that approximately three-fifths of the voters of the United States have definitely expressed their preference for Mr. Roosevelt, and any Congressman would certainly be lacking in political astuteness if he does not recognize this fact in his attitude and his vote during the next four years.

We believe that the landslide for Mr. Roosevelt is definitely inflationary in character. We would not be at all surprised if the President does not find that he has started a movement which, because of the popular demand, will gain so much momentum during the next few years that he will be powerless to stop it as it gathers speed. We believe that a landslide for Mr. Landon would have been equally bad in that it would have given the mandate to the Old Guard to return to ultra-conservatism. A close vote for either Roosevelt or Landon, in our opinion, would have resulted in a middle course; as Mr. Roosevelt would have been restrained by the large minority, and Mr. Landon, because of the closeness of the vote, would have liberalized his attitude.

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During the next two years, we believe, inflationary trends will be quite stimulating to business. We believe that Landon's election would have resulted in considerable labor difficulties in the immediate future. These will now probably be postponed because of the optimism of organized labor on the possibility of securing their demands, but we believe that labor difficulties will occur later with increased intensity as the demands of organized labor grow to such proportions that they cannot be granted.

We believe that the Federal Government will continue its effort to solve the slum problem through subsidized housing.

We believe that every effort will be made by the Administration to hold interest rates down. Whether these efforts can be successful for any period of time in the real estate mortgage field will depend to a large extent upon the demand for credit from other industries.

We think it likely that the Federal Housing Administration will be extended under its present set-up in spite of the opposition of both the building and loan associations and the mortgage bankers.

We believe that office and large apartment buildings will face higher operating costs within the next few years due to limitations on hours and higher wage scales. These may be offset by smaller vacancy and higher space rates.

We believe that the safest investments in real estate at the present time are smaller residential units and farms. We believe that neither of these types will show the maximum increase in value, but we do think that they are the most conservative. In 1930 forty-five and nine-tenths per cent of the families living in cities owned their own homes, and fifty-four and one-tenth per cent of the farmers owned their own farms. These percentages have probably shrunk slightly during the last six years because of the depression, but they will rise again during the period immediately ahead.

Anything in which a large percentage of the voters of the United States is interested will receive the maximum political protection. This is no reflection on the present Administration; it would be true of any administration. But it places real estate in a favorable position at a time when, because of the experimental trend toward the left on the part of the United States and the danger of inflation, safe investments are not as plentiful as they once were.

November 5, 1936

